ANNUAL BUDGET OF

UMVOTI MUNICIPALITY (KZN245)

2012/13 TO 2014/15

MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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Abbreviations and Acronyms

AMR Automated Meter Reading
ASGISA Accelerated and Shared Growth Initiative
BPC Budget Planning Committee
CBD Central Business District
CFO Chief Financial Officer
CM City Manager
CPI Consumer Price Index
CRRF Capital Replacement Reserve Fund
DBSA Development Bank of South Africa
DoRA Division of Revenue Act
DWA Department of Water Affairs
EE Employment Equity
EEDSM Energy Efficiency Demand Side Management
EM Executive Mayor
FBS Free basic services
GAMAP Generally Accepted Municipal Accounting Practice
GDP Gross domestic product
GDS Gauteng Growth and Development Strategy
GFS Government Financial Statistics
GRAP General Recognised Accounting Practice
HR Human Resources
HSRC Human Science Research Council
IDP Integrated Development Strategy
IT Information Technology
kℓ kilolitre
km kilometre
KPA Key Performance Area
KPI Key Performance Indicator
kWh kilowatt
ℓ litre
LED Local Economic Development
MEC Member of the Executive Committee
MFMA Municipal Financial Management Act Programme
MIG Municipal Infrastructure Grant
MMC Member of Mayoral Committee
MPRA Municipal Properties Rates Act
MSA Municipal Systems Act
MTEF Medium-term Expenditure Framework
MTREF Medium-term Revenue and Expenditure Framework
NERSA National Electricity Regulator South Africa
NGO Non-Governmental organisations
NKPIs National Key Performance Indicators
OHS Occupational Health and Safety
OP Operational Plan
PBO Public Benefit Organisations
PHC Provincial Health Care
PMS Performance Management System
PPE Property Plant and Equipment
PPP Public Private Partnership
PTIS Public Transport Infrastructure System
RG Restructuring Grant
RSC Regional Services Council
SALGA South African Local Government Association
SAPS South African Police Service
SDBIP Service Delivery Budget Implementation Plan
SMME Small Micro and Medium Enterprises

Part 1 – Annual Budget

1.1 Mayor's Report

Having taken office in June 2011 has been a great opportunity for me to serve the Community of Umvoti as Mayor. It has been very challenging especially with the Municipality been in disarray.

It was and still is a big challenge to rectify all the wrong doing that has occurred prior to the change of political power within the Municipality. In order to rectify the situation and to establish the extent of wrong doing we had engaged the services of KPMG forensic auditors to audit the situation that has been prevailing at the municipality.

Their audit has reveiled a number of concerns from miss use of procurement, payment of bonuses without proper performance assessment, paying service providers without any deliverables etc.

Measurers have and are still been taken to bring the culprits to book. This has resulted in the resignation of the Chief Financial Officer and the Supply Chain Manager. The other managers have also been suspended and their disciplinary hearings will be conducted soon.

The budget for the 2012/2013 has proved to be a great challenge as we do not have the nessarray resources to meet all the needs out there but will endeavor to do our best to serve the entire community with the little resources available.

I am aware of the outcry from the community in Greytown to have the roads redone a portion of the roads will definitely be done in town in the ensuing year as Mig funding has been obtained for this project.

Budgeting is primarily about the choices that the municipality has to make between competing priorities and fiscal realities. The challenge is to do more with the available resources. We need to remain focused on the effective delivery of the core municipal services through the application of efficient and effective service delivery mechanisms.

1.2 Council Resolutions

On 30 May 2012 the Council of Umvoti Municipality met in the Council Chambers 41 Bell Street, Greytown to consider the annual budget of the municipality for the financial year 2012/13. The Council approved and adopted the following resolutions:

1. The Council of Umvoti Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:

    1.1. The annual budget of the municipality for the financial year 2012/13 and the multi-year and single-year capital appropriations as set out in the following tables:

    1.1.1. Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in Table 11 on page 18;

    1.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in Table 12 on page 19;

1.1.3. Budgeted Financial Performance (revenue by source and expenditure by type) as contained in Table 14 on page 21; and
1.1.4. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source as contained in Table 15 on page 23.

1.2. The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:
1.2.1. Budgeted Financial Position as contained in Table 16 on page 25;
1.2.2. Budgeted Cash Flows as contained in Table 17 on page 26;
1.2.3. Cash backed reserves and accumulated surplus reconciliation as contained in Table 18 on page 27;
1.2.4. Asset management as contained in Table 19 on page 29; and

2. The Council of Umvoti Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2012:
2.1. the tariffs of charges for 2012/13 – as set out in Annexure A,

3. To give proper effect to the municipality's annual budget, the Council of Umvoti Municipality approves:
3.1. That cash backing is implemented through the utilisation of a portion of the revenue generated from property rates to ensure that all capital reserves and provisions, and unspent conditional grants are cash backed as required in terms of the municipality's funding and reserves policy as prescribed by section 8 of the Municipal Budget and Reporting Regulations.

1.3 Executive Summary

The application of sound financial management principles for the compilation of the Municipality's financial plan is essential and critical to ensure that the Municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The Municipality's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on noncore and 'nice to have' items.

The Municipality has embarked on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. Furthermore, the Municipality has undertaken various customer care initiatives to ensure the municipality truly involves all citizens in the process of ensuring a people lead government.

National Treasury's MFMA Circular No. 51, 54, 58 and 59 were used to guide the compilation of the 2012/13 MTREF.

The main challenges experienced during the compilation of the 2012/13 MTREF can be summarised as follows:

- The ongoing difficulties in the national and local economy;
- Aging and poorly maintained roads and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- The increased cost of bulk water and electricity (due to tariff increases from Utukela Water and Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be point where services will no-longer be affordable;
- Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies; and
- Affordability of capital projects – original allocations had to be reduced and the operational expenditure associated with prior year's capital investments needed to be factored into the budget as part of the 2012/13 MTREF process;

The following budget principles and guidelines directly informed the compilation of the 2012/13 MTREF:

- The 2011/12 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2012/13 annual budget;
- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk water and electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;

The following table is a consolidated overview of the proposed 2012/13 Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2012/13 MTREF

R Thousand	**Adjustment Budget 2011/12**	**Budget Year 2012/13**	**Budget Year +1 2013/14**	**Budget Year +2 2014/15**
Total Operating Revenue	118,130	125,993	133,553	141,570
Total Operating Expenditure	136,546	154,624	163,902	173,737
(Surplus)/Deficit for the year	(18,416)	(28,631)	(30,349)	(32,167)
Total Capital Expenditure	15,252	48,108		

Total operating revenue has grown by 6.66 per cent or R7.8 million for the 2012/13 financial year when compared to the 2011/12 Adjustments Budget. For the two outer years, operational revenue will increase by 6 per cent respectively, equating to a total revenue growth of R23.4 million over the MTREF when compared to the 2011/12 financial year.

Total operating expenditure for the 2012/13 financial year has been appropriated at R154.6 million and translates into a budgeted deficit of R28.6 million. When compared to the 2011/12 Adjustments Budget, operational expenditure has grown by 13.24 per cent in the 2012/13

budget and by 6 per cent for each of the respective outer years of the MTREF. The operating deficit for the two outer years steadily increases to R32.1 million this indicates that the Municipality should start implementing a financial turn-around strategy as soon as possible. Reserves will be used to fund capital expenditure in the ensuing year.

The capital budget of R48.1 million for 2012/13 is 315.42% per cent more when compared to the 2011/12 Adjustment Budget. The increase is due to various projects not being finalised in the previous financial year. The capital programme for the outer years could not be finalised due to the dwindling financial situation of the Municipality in the outer years. Should the financial situation not increase the municipality would not be in a position to fund any capital programs unless it considers borrowing for this purpose which would also have an impact on the budgeted deficit.

1.4 Operating Revenue Framework

For Umvoti Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Growth in the Municipality and continued economic development;
- Efficient revenue management, which aims to ensure a 95 per cent annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- Increase ability to extend new services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the Municipality.

The following table is a summary of the 2012/13 MTREF (classified by main revenue source):

Table 2 Summary of revenue classified by main revenue source

Description	Ref	2008/9	2009/10	2010/11	Current Year 2011/12				2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Revenue By Source											
Property rates	2	11,058	21,028	13,565	13,870	14,345	14,345	–	16,178	17,149	18,178
Property rates - penalties & collection charges		1,364	1,085	1,180	1,467	1,260	1,260		1,300	1,378	1,461
Service charges - electricity revenue	2	20,096	28,276	34,013	39,863	41,608	41,608	–	48,235	51,129	54,197
Service charges - water revenue	2	–	–	–	–	–	–	–	–	–	–
Service charges - sanitation revenue	2	–	–	–	–	–	–	–	–	–	–
Service charges - refuse revenue	2	4,108	4,359	4,726	4,987	5,264	5,264	–	5,529	5,860	6,212
Service charges - other		174	189	317	360	208	208		407	432	458
Rental of facilities and equipment		2,651	2,827	2,998	3,252	2,883	2,883		2,979	3,158	3,347
Interest earned - external investments		5,872	3,279	2,939	2,810	2,700	2,700		2,700	2,862	3,034
Interest earned - outstanding debtors		292	192	157	162	156	156		167	177	188
Dividends received											
Fines		675	434	325	854	324	324		404	428	454
Licences and permits		1,537	1,656	2,071	2,206	1,932	1,932		2,002	2,122	2,250
Agency services		757	817	925	1,069	1,015	1,015		1,016	1,077	1,142
Transfers recognised - operational		21,324	32,622	34,788	54,756	46,336	46,336		44,966	47,664	50,524
Other revenue	2	327	8,326	2,801	136	100	100	–	111	117	128
Gains on disposal of PPE		40	87	91		–	–				
Total Revenue (excluding capital transfers and contributions)		70,276	105,176	100,895	125,792	118,130	118,130	–	125,993	133,553	141,570

Table 3 Percentage growth in revenue by main revenue source

Description	Current Year 2011/12		2012/13 Medium Term Revenue & Expenditure Framework					
R thousand	**Adjusted Budget**	**%**	**Budget Year 2012/13**	**%**	**Budget Year +1 2013/14**	**%**	**Budget Year +2 2014/15**	**%**
Revenue By Source								
Property rates	14,345,000	12.1%	16,178,000	12.8%	17,148,680	12.8%	18,177,602	12.8%
Property rates - penalties & collection charges	1,260,000	1.1%	1,300,000	1.0%	1,378,000	1.0%	1,460,680	1.0%
Service charges - electricity revenue	41,607,918	35.2%	48,235,000	38.3%	51,129,100	38.3%	54,196,846	38.3%
Service charges - water revenue	0		0		0		0	
Service charges - sanitation revenue	0		0		0		0	
Service charges - refuse revenue	5,263,510	4.5%	5,528,500	4.4%	5,860,210	4.4%	6,211,823	4.4%
Service charges - other	207,688	0.2%	407,200	0.3%	431,632	0.3%	457,529	0.3%
Rental of facilities and equipment	2,883,310	2.4%	2,978,800	2.4%	3,157,528	2.4%	3,346,979	2.4%
Interest earned - external investments	2,700,000	2.3%	2,700,000	2.1%	2,862,000	2.1%	3,033,720	2.1%
Interest earned - outstanding debtors	156,290	0.1%	167,000	0.1%	177,020	0.1%	187,641	0.1%
Dividends received								
Fines	323,500	0.3%	404,000	0.3%	428,240	0.3%	453,934	0.3%
Licences and permits	1,932,200	1.6%	2,002,200	1.6%	2,122,332	1.6%	2,249,671	1.6%
Agency services	1,015,000	0.9%	1,016,000	0.8%	1,076,960	0.8%	1,141,577	0.8%
Transfers recognised - operational	46,336,000	39.2%	44,966,000	35.7%	47,663,960	35.7%	50,523,797	35.7%
Other revenue	100,000	0.1%	110,700	0.1%	117,062	0.1%	128,086	0.1%
Gains on disposal of PPE	0							
Total Revenue (excluding capital transfers and contributions)	118,130,416	100.0%	125,993,400	100.0%	133,552,724	100.0%	141,569,885	100.0%
Total revenue from rates and service charges	62,684,116	53.1%	71,648,700	56.9%	75,947,622	56.9%	80,504,480	56.9%

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Revenue generated from rates and services charges should form a significant percentage of the revenue basket for the Municipality and service charge revenues comprise slightly more than half of the total revenue mix. In the 2011/12 financial year, revenue from rates and services charges totaled R62.6 million or 53.1 per cent. This increases to R71.61 million, R75.9 million and R80.5 million in the respective financial years of the MTREF. A notable trend is the

increase in the total percentage revenue generated from rates and services charges which increases from 53.1 per cent in 2011/12 to 56.9 per cent in 2013/14. This growth can be mainly attributed to the increased share that the sale of electricity contributes to the total revenue mix, which in turn is due to rapid increases in the Eskom tariffs for bulk electricity. The above table excludes revenue foregone arising from discounts and rebates associated with the tariff policies of the Municipality.

Property rates is the second largest revenue source totaling 12.8 per cent or R16.1 million rand and increases to R18.1 million by 2014/15. The third largest sources is 'other revenue' which consists of various items such as income received from permits and licenses, building plan fees, connection fees, transport fees and advertisement fees. Departments have been urged to review the tariffs of these items on an annual basis to ensure they are cost reflective and market related.

Operating grants and transfers totals R46 million in the 2011/12 financial year and steadily increases to R50 million by 2014/15. Note that the year-on-year growth for the 2011/12 financial year is 35.7 per cent and remains flattened at 35.7 per cent in the two outer years. The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

Table 4 Operating Transfers and Grant Receipts

Description	2008/9	2009/10	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
RECEIPTS									
Operating Transfers and Grants									
National Government	**18,129,237**	**25,314,624**	**31,239,841**	**39,025,000**	**39,025,000**	**39,025,000**	**44,262,000**	**47,723,000**	**51,770,000**
Local Government Equitable Share	18,129,237	24,564,624	30,039,841	36,785,000	36,785,000	36,785,000	41,962,000	45,103,000	49,070,000
Finance Management		750,000	1,200,000	1,450,000	1,450,000	1,450,000	1,500,000	1,750,000	1,750,000
Municipal Systems Improvement Grant				790,000	790,000	790,000	800,000	870,000	950,000
Provincial Government	**2,641,399**	**3,128,956**	**3,291,630**	**1,807,000**	**1,807,000**	**1,807,000**	**2,672,000**	**3,549,000**	**3,606,000**
Health Subsidy	2,641,399	2,480,945	2,039,549						
Property Rates							1,906,000	2,500,000	2,500,000
Provincialisation of Libraries				363,000	363,000	363,000	381,000	800,000	844,000
Museum subsidy		68,000	73,000	181,000	181,000	181,000	134,000	143,000	151,000
Community Libraries			391,194	96,000	96,000	96,000	101,000	106,000	111,000
Sport : Infrastructure		525,000	525,000				150,000		
Operational Support Thusong Centres				500,000	500,000	500,000			
Security Thusong Centres				667,000	667,000	667,000			
Eshane Development			200,000						
Other grant providers:									
Local Government Seta: Skills Develop.		55,011	62,887						
Total Operating Transfers and Grants	**20,770,636**	**28,443,580**	**34,531,471**	**40,832,000**	**40,832,000**	**40,832,000**	**46,934,000**	**51,272,000**	**55,376,000**

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the Municipality.

National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges as low as possible. Municipalities must justify in their budget documentation all increases in excess of the 6 per cent upper boundary of the South African Reserve Bank's inflation target. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payment.

The percentage increase of Eskom tariffs are far beyond the mentioned inflation target. Given that this tariff increase is determined by an external agency, the impact it has on the

municipality's electricity and in this tariff is largely outside the control of the Municipality. Discounting the impact of these price increases in lower consumer tariffs will erode the Municipality's future financial position and viability.

It must also be appreciated that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilised for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of electricity and water, petrol, diesel, chemicals, cement etc. The current challenge facing the Municipality is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions. Within this framework the Municipality has undertaken the tariff setting process relating to service charges as follows.

1.4.1 Property Rates

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties to be 0,25:1. The implementation of these regulations was done in the previous budget process and the Property Rates Policy of the Municipality has been amended accordingly.

The following stipulations in the Property Rates Policy are highlighted:

- The first R15 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA). In addition to this rebate, a further R50 000 reduction on the market value of a property will be granted in terms of the Municipality's own Property Rates Policy;
- 30 per cent rebate will be granted on all agricultural properties
- 30 per cent rebate for sectional title . In addition to this rebate, a further R50 00 reduction on the market value of a property will be granted in terms of the Municipality's own Property Rates Policy.
- 100 per cent rebate will be granted to registered indigents in terms of the Indigent Policy;
- For pensioners, physically and mentally disabled persons, a maximum/total rebate of 50 per cent (calculated on a sliding scale) will be granted to owners of rate-able property if the total gross income of the applicant and/or his/her spouse, if any, does not to exceed the amount equal to twice the annual state pension as approved by the National Government for a financial year. In this regard the following stipulations are relevant:
    - The rate-able property concerned must be occupied only by the applicant and his/her spouse, if any, and by dependents without income;
    - The applicant must submit proof of his/her age and identity and, in the case of a physically or mentally handicapped person, proof of certification by a Medical Officer of Health, also proof of the annual income from a social pension;
    - The applicant's account must be paid in full, or if not, an arrangement to pay the debt should be in place; and
    - The property must be categorized as residential.

- The Municipality may award a 100 per cent grant-in-aid on the assessment rates of rate-able properties of certain classes such as registered welfare organizations, institutions or organizations performing charitable work, sports grounds used for purposes of amateur sport. The owner of such a property must apply to the Chief Financial Officer in the prescribed format for such a grant.

The categories of rate-able properties for purposes of levying rates and the proposed rates for the 2011/13 financial year based on a 10 per cent increase from 1 July 2012 is contained below:

Table 5 Comparison of proposed rates to levied for the 2011/12 financial year

Category	Current tariff (1 July 2011)	Proposed tariff (From 1 July 2012)
RESIDENTIAL	1.16	1.28
STATE OWNED	1.73	1.90
BUSINESS & COMMERCIAL	1.73	1.90
AGRICULTURE	0.29	0.32
VACANT LAND	30.79	33.87
MUNICIPAL RATEABLE	1.16	1.28
INDUSTRIAL	1.16	1.28
Public service/benefit	0.29	0.32
New Ccommercial	1.73	1.90
Communal land	0.29	0.32

1.4.2 Sale of Electricity and Impact of Tariff Increases

NERSA has announced the revised bulk electricity pricing structure. A 13.5 per cent increase in the Eskom bulk electricity tariff to municipalities will be effective from 1 July 2012.

Considering the Eskom increases, the consumer tariff had to be increased by 20 per cent to offset the additional bulk purchase cost from 1 July 2012. Furthermore, it should be noted that given the magnitude of the tariff increase, it is expected to depress growth in electricity consumption, which will have a negative impact on the municipality's revenue from electricity.

Registered indigents will again be granted 50 kWh per 30-day period free of charge.

The following table shows the impact of the proposed increases in electricity tariffs on the water charges for domestic customers:

Table 6 Comparison between current electricity charges and increases (Domestic)

Electricity kwh charges			
Domestic	ES537	81.43	97.716
Domestic (no basic charge)	ES611	1.1078	1.32936
Domestic indigent con.meter (20amps)	ES579	60.19	72.228
Prepaid indigent	EP615	69.03	82.836
Prepaid non indigent	EP616	106.19	127.428
Commercial	ES540	99.15	118.98
Street lights	ES594	99.15	118.98
Sports fields	ES553	1.0713	1.28556
BULK			
Elect kwh	ES582	56.57	67.884
Elect kva	ES582	132.36	158.832
Basic	ES554	925.24	1110.288
Electricity MCB Charges			
Domestic	per amp	3.15	3.78
Commercial	per amp	3.79	4.548
Elect avail on vacant property			
Domestic	BE201	66.10	79.32
Commercial	BE202	127.8	153.36

It should further be noted that NERSA has advised that a stepped tariff structure needs to be implemented from 1 July 2012. The effect thereof will be that the higher the consumption, the higher the cost per kWh. The aim is to subsidise the lower consumption users (mostly the poor). The Municipality has entered into discussions with NERSA regarding the suitability of the NERSA proposed stepped tariffs compared to those already being implemented by the Municipality already. Until the discussions are concluded, the Municipality will maintain the current structure of its electricity tariffs.

The inadequate electricity bulk capacity and the impact on service delivery and development remains a challenge for the Municipality. The upgrading of the Municipality's electricity network has therefore become a strategic priority, especially the substations and transmission lines.

The approved budget for the Electricity Department can only be utilised for certain committed upgrade projects and to strengthen critical infrastructure (e.g. substations without back-up supply).

Owing to the high increases in Eskom's bulk tariffs, it is clearly not possible to fund these necessary upgrades through increases in the municipal electricity tariff – as the resultant tariff increases would be unaffordable for the consumers. As part of the 2012/13 medium-term capital programme, funding has been allocated to electricity infrastructure but these funding levels will require further investigation as part of the next budget cycle in an attempt to source more funding to ensure this risk is mitigated.

1.4.3 Waste Removal and Impact of Tariff Increases

Currently solid waste removal is operating at a deficit. It is widely accepted that the rendering of this service should at least break even, which is currently not the case. The Municipality will have to implement a solid waste strategy to ensure that this service can be rendered in a sustainable manner over the medium to long-term. The main contributors to this deficit are repairs and maintenance on vehicles, increases in general expenditure such as petrol and diesel, transportation cost to the waste ill site in Pietermartizburg and the cost of remuneration. Considering the deficit, it is recommended that a comprehensive investigation into the cost structure of solid waste function be undertaken, and that this include investigating alternative service delivery models. The outcomes of this investigation will be incorporated into the next planning cycle.

A 10 per cent increase in the waste removal tariff for business is proposed from 1 July 2012 this is due to the fact that residents were subsidizing the business in the past. The tariff for residential will remain unchanged but removals will be reduced to once a week and opposed to twice weekly.

The following table compares current and proposed amounts payable from 1 July 2012:

Table 7 Comparison between current waste removal fees and increases

Category	Current tariff (1 July 2011)	Proposed tariff (From 1 July 2012)
Domestic	108.2	108.2
Commercail	219.8	241.8
Additional	122.6	134.9
Domestic K/kop	88.8	88.8

1.5 Operating Expenditure Framework

The Municipality expenditure framework for the 2012/13 budget and MTREF is informed by the following:

- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of *no project plan no budget*. If there is no business plan no funding allocation can be made.

- Council approves the capital budget and spending on the budget should be regulated on priorities and available funding prior to commencement of the capital project. This is mainly due to the fact that no funding currently exist to carry our projects with own revenue. All grant funded projects can be proceeded with immediately.

The following table is a high level summary of the 2012/13 budget and MTREF (classified per main type of operating expenditure):

Table 8 Summary of operating expenditure by standard classification item

Description	2008/9	2009/10	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Expenditure By Type									
Employee related costs	21,084,398	22,891,041	29,808,739	38,229,000	36,305,568	36,305,568	45,841,877	48,592,867	51,508,439
Remuneration of councillors	3,926,000	4,347,500	4,315,947	5,046,250	5,000,000	5,000,000	5,857,930	6,209,406	6,581,970
Debt impairment	2,269,000	3,436,500	618,100	3,444,000	3,152,000	3,152,000	3,090,000	3,275,400	3,471,924
Depreciation & asset impairment	11,416,692	14,666,944	16,784,879	19,121,272	18,370,125	18,370,125	21,207,038	22,479,460	23,828,227
Finance charges		23,500	40,543		41,000	41,000			
Bulk purchases	12,856,494	18,639,730	22,479,311	32,000,000	32,000,000	32,000,000	40,000,000	42,400,000	44,944,000
Other materials									
Contracted services	6,403,000	11,281,000	10,861,707	14,490,000	12,745,000	12,745,000	6,839,000	7,249,060	7,684,624
Transfers and grants	2,163,000	1,534,000	1,390,232	0	1,300,000	1,300,000	2,310,800	2,449,448	2,596,415
Other expenditure	11,753,458	35,517,428	20,689,893	31,595,000	27,632,610	27,632,610	29,477,679	31,246,340	33,121,120
Loss on disposal of PPE									
Total Expenditure	71,872,043	112,337,643	106,989,351	143,925,522	136,546,303	136,546,303	154,624,324	163,901,981	173,736,719

The budgeted allocation for employee related costs for the 2012/13 financial year totals R46 million, which equals 29.6 per cent of the total operating expenditure. Based on the three year collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase of 5 per cent for the 2012/13 financial year. An annual increase of 6 per cent has been included in the two outer years of the MTREF. As part of the Municipality's cost reprioritization and cash management strategy vacancies have been significantly rationalized downwards. As part of the planning assumptions and interventions all vacancies are to be frozen and a report to be compiled by the Corporate Services Department relating to the prioritization of critical vacancies within the Municipality. The outcome of this exercise relating to critical and strategically important vacancies will be tabled to council in due course.

The settlement reached by the SALGBC parties in the salary dispute resulted in a further financial implication on this area of expenditure. It should be noted that the total financial implication could not be determined as the applicable municipal wage curve (representing equal pay for equal work at all municipalities in South Africa) has not been finalised.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the Municipality's budget.

The provision of debt impairment was determined based on an annual collection rate of 82 per cent and the Debt Write-off Policy of the Municipality. For the 2012/13 financial year this amount equates to R3,1 million and escalates to R3.4 million by 2014/15. While this expenditure is considered to be a non-cash flow item, it informed the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Budget appropriations in this regard total R21 million for the 2012/13 financial and equates to 13.7 per cent of the total operating expenditure. Note that the implementation of GRAP 17 accounting standard has meant bringing a range of assets previously not included in the assets register onto the register. This has resulted in a significant increase in depreciation relative to previous years.

Bulk purchases are directly informed by the purchase of electricity from Eskom. The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions. The expenditures include distribution losses.

Contracted services has been identified as a cost saving area for the Municipality. As part of the compilation of the 2012/13 MTREF this group of expenditure was critically evaluated and operational efficiencies were enforced. In the 2012/13 financial year, this group of expenditure totals R6.8 million and has decreased from the current year thus amounting to only 4.4 percent as opposed to 9.3 percent in the current year, clearly demonstrating the application of cost efficiencies. For the two outer years growth has been limited to 4.4 per cent respectively. As part of the process of identifying further cost efficiencies, a business process reengineering project will commence in the 2012/13 financial year to identify alternative practices and procedures, including building in-house capacity for certain activities that are currently being contracted out. The outcome of this exercise will be factored into the next budget cycle and it is envisaged that additional cost savings will be implemented. .

Other expenditure comprises of various line items relating to the daily operations among others the purchase of fuel, diesel, materials for maintenance of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved. Growth currently is 19 per cent for 2012/13 due to the uncertainty in the price of fuel and diesel and curbed at 6 per cent for the two outer years, indicating that significant cost savings could be realized here.

The following table gives a breakdown of the main expenditure categories for the 2011/12 financial year.

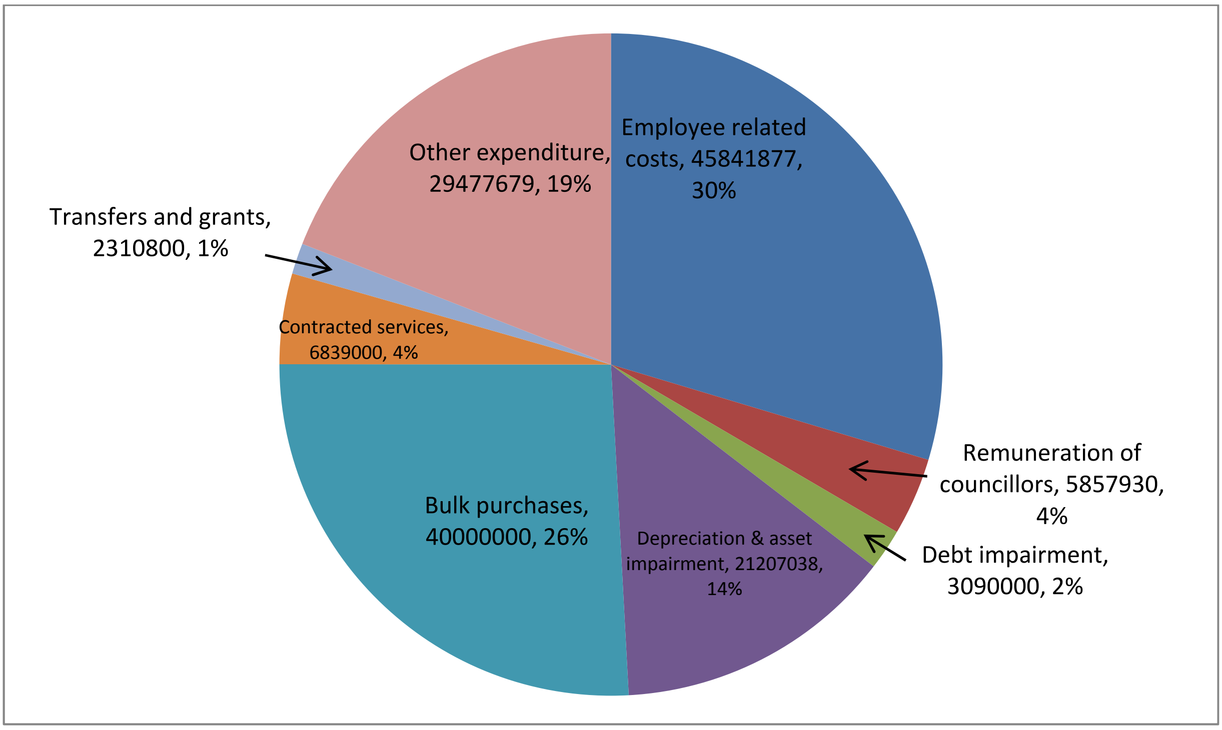


Figure 1 Main operational expenditure categories for the 2012/13 financial year

1.5.1 Priority given to repairs and maintenance

Aligned to the priority being given to preserving and maintaining the Municipality's current infrastructure, the 2012/13 budget and MTREF provide for extensive growth in the area of asset maintenance, as informed by the asset renewal strategy and repairs and maintenance plan of the Municipality. In terms of the Municipal Budget and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver but an outcome of certain other expenditures, such as remuneration, purchases of materials and contracted services.

During the compilation of the 2012/13 MTREF operational repairs and maintenance was identified as a strategic imperative owing to the aging of the Municipality's infrastructure and historic deferred maintenance. To this end, repairs and maintenance was substantially increased by 25.3 per cent in the 2012/13 financial year, from R6 million to R7.6 million. As part of the 2012/13 MTREF this strategic imperative remains a priority as can be seen by the budget appropriations over the MTREF. The total allocation for 2012/13 equates to R6 million a growth of 25.3 per cent in relation to the Adjustment Budget and continues to grow at 6 per cent over the outer years. In relation to the total operating expenditure, repairs and maintenance comprises of 4.9, and remains flat at 4.9 per cent for the respective financial years of the MTREF.

The table below provides a breakdown of the repairs and maintenance in relation to asset class:

Description	2008/9	2009/10	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Depreciation & asset impairment	11,416,692	14,666,944	16,784,879	19,121,272	18,370,125	18,370,125	21,207,038	22,479,460	23,828,227
Repairs and maintenance expenditure by Asset C	**948,164**	**3,386,798**	**4,548,528**	**6,089,966**	**6,089,966**	**6,089,966**	**7,636,250**	**8,094,425**	**8,580,091**
Infrastructure - Road transport	0	838,348	1,320,362	2,002,000	2,002,000	2,002,000	2,160,000	2,289,600	2,426,976
Roads, Pavements & Bridges		838,348	1,320,362	2,002,000	2,002,000	2,002,000	2,160,000	2,289,600	2,426,976
Infrastructure - Electricity	0	1,873,597	2,080,770	2,100,000	2,100,000	2,100,000	2,420,000	2,565,200	2,719,112
Transmission & Reticulation		1,612,185	1,736,841	1,700,000	1,700,000	1,700,000	1,995,000	2,114,700	2,241,582
Street Lighting		261,412	343,929	400,000	400,000	400,000	425,000	450,500	477,530
Infrastructure	**0**	**2,711,944**	**3,401,133**	**4,102,000**	**4,102,000**	**4,102,000**	**4,580,000**	**4,854,800**	**5,146,088**
Computers - hardware/equipment		315,958	585,600	531,178	531,178	531,178	632,200	670,132	710,340
Civic Land and Buildings		342,228	447,377	1,050,000	1,050,000	1,050,000	1,968,650	2,086,769	2,211,975
Other Land		12,250	50,543	52,000	52,000	52,000	65,000	68,900	73,034
Other assets	948,164	4,417	63,875	354,788	354,788	354,788	390,400	413,824	438,653
TOTAL OPERATING EXPENDITURE	**12,364,856**	**18,053,742**	**21,333,407**	**25,211,238**	**24,460,091**	**24,460,091**	**28,843,288**	**30,573,885**	**32,408,318**

For the 2012/13 financial year 26.5 per cent or 7.6 million of the total repairs and maintenance will be spent on infrastructure assets. Electricity infrastructure has received a significant propotion of this allocation totaling 8.4 per cent (2.4 million), followed by road infrastructure at 7.5 per cent (2.1 million) and Civic Land and Buildings has been allocated R1.9 million of total repairs and maintenance equating to 6.8 per cent.

1.5.2 Free Basic Services: Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the Municipality's Indigent Policy. The target is to register 2 000 or more indigent households during the 2012/13 financial year, a process reviewed annually. Detail relating to free services, cost of free basis services, revenue lost owing to free basic services as well as basic service delivery measurement is currently being complied and will be included as a schedule in the 2013/2014 budget.

The cost of the social package of the registered indigent households is largely financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act.

1.6 Capital expenditure

The following table provides a breakdown of budgeted capital expenditure by vote:

Table 9 2012/13 Medium-term capital budget per vote

Vote Description	Current Year 2011/12		2012/13 Medium Term Revenue & Expenditure Framework					
R thousand	Adjusted Budget	%	Budget Year 2012/13	%	Budget Year +1 2013/14	%	Budget Year +2 2014/15	%
EXECUTIVE AND COUNCIL	88	0.2%	135	0.3%	0		0	
BUDGET AND TREASURY OFFICE	563	1.2%	435	0.9%	0		0	
COMMUNITY AND SOCIAL	98	0.2%	6622	13.8%	0		0	
PUBLIC SAFETY	14,968	33.0%	690	1.4%	0		0	
SPORT AND RECREATION	1,215	2.7%	2630	5.5%	0		0	
ENVIRONMENTAL PROTECTION	0		0		0		0	
WASTE MANAGEMENT	1,530	3.4%	1650	3.4%	0		0	
ROAD TRANSPORT	22,593	49.8%	22663	47.1%	0		0	
ELECTRICITY	3,999	8.8%	12800	26.6%	0		0	
CORPORATE SERVICES	312	0.7%	483	1.0%	0		0	
Total Capital Budget	**45,366**	**100%**	**48108**	**100%**	**0**		**0**	

For 2012/13 an amount of R44.7 million has been appropriated for the development of infrastructure which represents 92.9 per cent of the total capital budget. As information relating to the outer years have not been provided these figures could not be included at this point in time and will be incorporated at a later stage. Transport and roads receives the highest allocation of R22.6 million in 2012/13 which equates to 47.1 per cent followed by electricity infrastructure at 226.6 per cent, R12.8 million and then community and social at 13.8 per cent, R6.6 million.

Total new assets represent 100 per of the total capital budget while asset renewal equates to nil.

1.7 Annual Budget Tables

The following eighteen pages present the ten main budget tables as required in terms of section 8 of the Municipal Budget and Reporting Regulations. These tables set out the municipality's 2012/13 budget and MTREF as approved by the Council. Each table is accompanied by *explanatory notes* on the facing page.

Table 10 MBRR Table A1 - Budget Summary

KZN245 Umvoti - Table A1 Budget Summary

Description	2008/9	2009/10	2010/11	Current Year 2011/12				2012/13 Medium Term Revenue & Expenditure Framework		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Financial Performance										
Property rates	12,422	22,113	14,745	15,337	15,605	15,605	–	17,478	18,527	19,638
Service charges	24,379	32,824	39,055	45,210	47,079	47,079	–	54,171	57,421	60,866
Investment revenue	5,872	3,279	2,939	2,810	2,700	2,700	–	2,700	2,862	3,034
Transfers recognised - operational	21,324	32,622	34,788	54,756	46,336	46,336	–	44,966	47,664	50,524
Other own revenue	6,279	14,337	9,368	7,680	6,410	6,410	–	6,679	7,079	7,508
Total Revenue (excluding capital transfers and contributions)	70,276	105,176	100,895	125,792	118,130	118,130	–	125,993	133,553	141,570
Employee costs	21,084	22,891	29,809	38,229	36,306	36,306	–	45,842	48,593	51,508
Remuneration of councillors	3,926	4,348	4,316	5,046	5,000	5,000	–	5,858	6,209	6,582
Depreciation & asset impairment	11,417	14,667	16,785	19,121	18,370	18,370	–	21,207	22,479	23,828
Finance charges	–	24	41	–	41	41	–	–	–	–
Materials and bulk purchases	12,856	18,640	22,479	32,000	32,000	32,000	–	40,000	42,400	44,944
Transfers and grants	2,163	1,534	1,390	–	1,300	1,300	–	2,311	2,449	2,596
Other expenditure	20,425	50,235	32,170	49,529	43,530	43,530	–	39,407	41,771	44,278
Total Expenditure	71,872	112,338	106,989	143,926	136,546	136,546	–	154,624	163,902	173,737
Surplus/(Deficit)	(1,596)	(7,162)	(6,095)	(18,133)	(18,416)	(18,416)	–	(28,631)	(30,349)	(32,167)
Transfers recognised - capital	19,189	10,124	10,937	14,732	15,700	15,700	–	48,079	50,964	54,022
Contributions recognised - capital & contributed a	–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) after capital transfers & contributions	17,593	2,962	4,842	(3,402)	(2,716)	(2,716)	–	19,448	20,614	21,855
Share of surplus/ (deficit) of associate	–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) for the year	17,593	2,962	4,842	(3,402)	(2,716)	(2,716)	–	19,448	20,614	21,855
Capital expenditure & funds sources										
Capital expenditure	–	–	–	–	–	–	–	48,108	–	–
Transfers recognised - capital	–	–	–	–	–	–	–	48,079	–	–
Public contributions & donations	–	–	–	–	–	–	–	–	–	–
Borrowing	–	–	–	–	–	–	–	–	–	–
Internally generated funds	–	–	–	–	–	–	–	29	–	–
Total sources of capital funds	–	–	–	–	–	–	–	48,108	–	–
Financial position										
Total current assets	60,831	58,957	71,459	45,920	57,682	57,682	–	27,405	13,949	10,972
Total non current assets	139,143	152,319	173,962	181,676	181,949	181,949	–	233,553	277,069	322,236
Total current liabilities	27,148	18,252	25,124	25,823	22,092	22,092	–	23,200	27,646	42,981
Total non current liabilities	–	8,113	8,082	8,066	8,040	8,040	–	8,000	8,000	8,000
Community wealth/Equity	172,826	184,910	212,215	193,707	209,499	209,499	–	229,758	255,372	282,227
Cash flows										
Net cash from (used) operating	27,132	11,839	29,133	19,163	18,769	18,769	–	43,745	45,691	49,365
Net cash from (used) investing	(29,677)	(23,970)	(20,978)	(40,475)	(26,312)	(26,312)	–	(72,000)	(61,000)	(64,000)
Net cash from (used) financing	41	469	(28)	151	150	–	–	–	–	–
Cash/cash equivalents at the year end	51,895	40,234	48,361	27,200	40,968	40,818	48,361	12,563	(2,746)	(17,381)
Cash backing/surplus reconciliation										
Cash and investments available	51,893	40,232	48,360	27,200	40,968	40,968	–	10,891	(2,736)	(17,371)
Application of cash and investments	18,453	2,865	923	4,879	4,988	4,988	–	6,246	10,426	14,003
Balance - surplus (shortfall)	33,441	37,367	47,437	22,321	35,980	35,980	–	4,645	(13,162)	(31,374)
Asset management										
Asset register summary (WDV)	43,036	46,824	64,189	47,000	64,189	64,189	65,000	65,000	70,000	75,000
Depreciation & asset impairment	11,417	14,667	16,785	19,121	18,370	18,370	21,207	21,207	22,479	23,828
Renewal of Existing Assets	–	–	–	–	–	–	–	–	–	–
Repairs and Maintenance	948	3,435	4,549	6,090	6,090	–	7,636	7,636	8,094	8,580
Free services										
Cost of Free Basic Services provided	–	–	–	–	–	–	–	–	–	–
Revenue cost of free services provided	–	–	–	–	–	–	–	–	–	–
Households below minimum service level										
Water:	–	–	–	–	–	–	–	–	–	–
Sanitation/sewerage:	–	–	–	–	–	–	–	–	–	–
Energy:	–	–	–	–	–	–	–	–	–	–
Refuse:	–	–	–	–	–	–	–	–	–	–

Explanatory notes to MBRR Table A1 - Budget Summary

1. Table A1 is a budget summary and provides a concise overview of the Municipality's budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance).
2. The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.
3. Financial management reforms emphasises the importance of the municipal budget being funded. This requires the simultaneous assessment of the Financial Performance, Financial Position and Cash Flow Budgets, along with the Capital Budget. The Budget Summary provides the key information in this regard:
    a. The operating surplus/deficit (after Total Expenditure) is positive over the next MTREF and starts declining in the outer years.
    b. Capital expenditure is balanced by capital funding sources, of which
        i. Transfers recognised is reflected on the Financial Performance Budget;
        ii. Internally generated funds is financed from a combination of the current operating surplus and accumulated cash-backed surpluses from previous years. The amount is incorporated in the Net cash from investing on the Cash Flow Budget. The fact that the municipality's cash flow remains positive currently and declines in the outer years, indicates that there will not be any cash resources are available to fund the Capital Budget.
4. The Cash backing/surplus reconciliation shows that in previous financial years the municipality was not paying much attention to managing this aspect of its finances, and although many of its obligations are cash-backed. This places the municipality in a very vulnerable financial position, as the recent slow-down in revenue collections highlighted. Consequently Council has taken a deliberate decision to ensure adequate cash-backing for the outer years for all material obligations in accordance with the recently adopted Funding and Reserves Policy. This cannot be achieved in one financial year. But over the MTREF there is a decline in the level of cash-backing of obligations. It is anticipated that the goal of having all obligations cash-back again would need to be achieved by 2013/14, when a deficit is reflected.
5. Even though the Council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor. In addition, the municipality continues to make progress in addressing service delivery backlogs.

Table 11 MBRR Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)

KZN245 Umvoti - Table A2 Budgeted Financial Performance (revenue and expenditure by standard classification)

Standard Classification Description	Ref	2008/9	2009/10	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Revenue - Standard										
Governance and administration		57,635	73,512	64,122	79,963	73,271	73,271	113,645	120,464	127,692
Executive and council		13,131	32,587	30,041	82	81	81	3	3	3
Budget and treasury office		44,237	40,567	33,583	78,625	72,725	72,725	111,178	117,849	124,920
Corporate services		268	358	498	1,256	465	465	2,464	2,612	2,769
Community and public safety		3,933	3,679	3,797	3,233	3,231	3,231	2,426	2,572	2,726
Community and social services		124	186	615	632	631	631	807	855	906
Sport and recreation		31	26	30	27	27	27	35	37	39
Public safety		1,102	954	1,083	1,296	1,296	1,296	1,556	1,649	1,748
Housing		34	31	29	28	27	27	29	30	32
Health		2,641	2,481	2,040	1,250	1,250	1,250	–	–	–
Economic and environmental services		2,271	4,013	3,781	3,113	3,113	3,063	2,987	3,166	3,356
Planning and development		28	1,586	829	131	130	130	–	–	–
Road transport		2,243	2,427	2,952	2,982	2,982	2,932	2,987	3,166	3,356
Environmental protection		–	–	–	–	–	–	–	–	–
Trading services		23,830	32,172	38,132	52,101	52,101	52,101	52,864	56,035	59,397
Electricity		19,722	27,802	33,389	46,838	46,838	46,838	47,335	50,175	53,186
Water		–	–	–	–	–	–	–	–	–
Waste water management		–	–	–	–	–	–	–	–	–
Waste management		4,108	4,370	4,742	5,264	5,264	5,264	5,529	5,860	6,212
Other	4	1,795	1,924	2,001	2,113	2,113	2,113	2,150	2,279	2,416
Total Revenue - Standard	2	89,464	115,301	111,832	140,523	133,829	133,779	174,072	184,516	195,587
Expenditure - Standard										
Governance and administration		25,905	49,082	35,909	48,391	41,028	41,028	48,680	51,600	54,697
Executive and council		12,971	24,569	15,772	20,794	20,794	20,794	21,392	22,675	24,036
Budget and treasury office		5,233	14,807	9,513	13,673	7,102	7,102	10,292	10,909	11,564
Corporate services		7,701	9,706	10,624	13,924	13,132	13,132	16,996	18,016	19,097
Community and public safety		11,946	15,186	17,021	20,573	20,565	20,565	23,911	25,345	26,866
Community and social services		1,480	1,783	2,186	2,851	2,849	2,849	3,032	3,214	3,406
Sport and recreation		2,667	3,293	3,647	4,032	4,030	4,030	3,599	3,815	4,044
Public safety		4,679	6,196	7,111	8,136	8,135	8,135	10,790	11,437	12,124
Housing		596	1,140	1,083	1,498	1,498	1,498	1,591	1,687	1,788
Health		2,524	2,774	2,993	4,056	4,053	4,053	4,898	5,192	5,504
Economic and environmental services		11,104	16,525	19,956	19,873	19,871	19,871	22,546	23,898	25,332
Planning and development		232	2,752	3,269	872	871	871	1,617	1,714	1,817
Road transport		10,872	13,773	16,687	19,001	18,999	18,999	20,929	22,184	23,516
Environmental protection		–	–	–	–	–	–	–	–	–
Trading services		22,914	31,540	34,100	55,087	55,082	55,082	59,487	63,057	66,840
Electricity		17,311	25,246	28,169	46,203	46,200	46,200	51,228	54,302	57,560
Water		–	–	–	–	–	–	–	–	–
Waste water management		15	66	63	170	169	169	127	135	143
Waste management		5,588	6,228	5,867	8,714	8,713	8,713	8,132	8,620	9,137
Other	4	4	4	3	1	1	1	1	–	–
Total Expenditure - Standard	3	71,872	112,337	106,990	143,925	136,547	136,547	154,624	163,900	173,735
Surplus/(Deficit) for the year		17,592	2,964	4,842	(3,402)	(2,718)	(2,768)	19,447	20,616	21,852

Explanatory notes to MBRR Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)

1. Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides the municipal services into 15 functional areas. Municipal revenue, operating expenditure and capital expenditure are then classified in terms if each of these functional areas which enables the National Treasury to compile 'whole of government' reports.
2. Note the Total Revenue on this table includes capital revenues (Transfers recognised – capital) and so does not balance to the operating revenue shown on Table A4.
3. Note that as a general principle the revenues for the Trading Services should exceed their expenditures. The table highlights that this is not the case for Electricity function, or the Waste management function. As already noted above, the municipality will be undertaking

a detailed study of this function to explore ways of improving efficiencies and provide a basis for re-evaluating the function's tariff structure.

4. Other functions that show a deficit between revenue and expenditure are being financed from rates revenues and other revenue sources reflected under the Corporate Services.

Table 12 MBRR Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

KZN245 Umvoti - Table A3 Budgeted Financial Performance (revenue and expenditure by municipal vote)

Vote Description	Ref	2008/9	2009/10	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Revenue by Vote	1									
Vote 1 - EXECUTIVE AND COUNCIL		13,131	32,587	30,041	82	81	81	3	3	3
Vote 2 - BUDGET AND TREASURY OFFICE		44,238	40,567	33,583	78,625	72,725	72,725	111,178	117,849	124,920
Vote 3 - PLANNING AND DEVELOPMENT		28	1,586	829	131	130	130	1	1	1
Vote 4 - HEALTH		2,641	2,481	2,040	1,250	1,250	1,250	–	–	–
Vote 5 - COMMUNITY AND SOCIAL		124	186	615	632	631	631	807	855	906
Vote 6 - HOUSING		34	31	29	28	27	27	29	30	32
Vote 7 - PUBLIC SAFETY		728	480	448	526	526	526	656	695	737
Vote 8 - SPORT AND RECREATION		31	26	30	27	27	27	35	37	39
Vote 9 - ENVIRONMENTAL PROTECTION		–	–	–	–	–	–	–	–	–
Vote 10 - WASTE MANAGEMENT		4,108	4,370	4,742	5,264	5,264	5,264	5,529	5,860	6,212
Vote 11 - ROAD TRANSPORT		2,243	2,427	2,952	2,982	2,982	2,982	2,987	3,166	3,356
Vote 12 - ELECTRICITY		20,096	28,276	34,025	47,608	47,608	47,608	48,235	51,129	54,197
Vote 13 - OTHER		1,795	1,924	2,001	2,113	2,113	2,113	2,150	2,279	2,416
Vote 14 - CORPORATE SERVICES		268	358	498	1,256	465	465	2,464	2,612	2,769
Vote 15 - [NAME OF VOTE 15]		–	–	–	–	–	–	–	–	–
Total Revenue by Vote	2	89,465	115,301	111,832	140,524	133,830	133,830	174,072	184,516	195,587
Expenditure by Vote *to be appropriated*	1									
Vote 1 - EXECUTIVE AND COUNCIL		6,988	24,569	15,772	20,794	20,794	20,794	21,392	22,675	24,036
Vote 2 - BUDGET AND TREASURY OFFICE		11,215	14,807	9,513	13,673	7,102	7,102	10,292	10,909	11,564
Vote 3 - PLANNING AND DEVELOPMENT		232	2,752	3,269	872	871	871	1,617	1,714	1,817
Vote 4 - HEALTH		2,524	2,774	2,993	4,056	4,053	4,053	4,898	5,192	5,504
Vote 5 - COMMUNITY AND SOCIAL		1,480	1,783	2,186	2,851	2,849	2,849	3,032	3,214	3,406
Vote 6 - HOUSING		596	1,140	1,083	1,499	1,498	1,498	1,591	1,687	1,788
Vote 7 - PUBLIC SAFETY		4,471	5,935	6,767	7,736	7,735	7,735	10,365	10,987	11,646
Vote 8 - SPORT AND RECREATION		2,667	3,293	3,647	4,032	4,030	4,030	3,599	3,815	4,044
Vote 9 - ENVIRONMENTAL PROTECTION		–	–	–	–	–	–	–	–	–
Vote 10 - WASTE MANAGEMENT		5,603	6,294	5,931	8,884	8,882	8,882	8,259	8,755	9,280
Vote 11 - ROAD TRANSPORT		10,872	13,773	16,687	19,001	18,999	18,999	20,929	22,184	23,516
Vote 12 - ELECTRICITY		17,519	25,508	28,513	46,603	46,600	46,600	51,653	54,752	58,037
Vote 13 - OTHER		4	4	3	1	1	1	1	1	1
Vote 14 - CORPORATE SERVICES		7,701	9,706	10,624	13,924	13,132	13,132	16,996	18,016	19,097
Vote 15 - [NAME OF VOTE 15]		–	–	–	–	–	–	–	–	–
Total Expenditure by Vote	2	71,872	112,337	106,990	143,926	136,546	136,546	154,624	163,901	173,736
Surplus/(Deficit) for the year	2	17,593	2,964	4,842	(3,402)	(2,717)	(2,717)	19,448	20,615	21,852

Explanatory notes to MBRR Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

1. Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organisational structure of the Municipality. This means it is possible to present the operating surplus or deficit of a vote. The following table is an analysis of the surplus or deficit for the electricity and waste management trading services.

Table 13 Surplus/(Deficit) calculations for the trading services

Vote Description	2008/9	2009/10	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Electricity									
Total Revenue (incl capital grants and transfers)	20,096,042	28,276,385	34,025,118	47,607,648	47,607,918	47,607,918	48,235,000	51,129,100	54,196,846
Operating Expensiture	17,519,205	25,507,529	28,513,422	46,602,979	46,600,469	46,600,469	51,653,078	54,752,263	58,037,398
Surplus/(Defict) for the year	**2,576,837**	**2,768,856**	**5,511,696**	**1,004,669**	**1,007,449**	**1,007,449**	**-3,418,078**	**-3,623,163**	**-3,840,552**
Percentage Surplus/(Deficit)	**13%**	**10%**	**16%**	**2%**	**2%**	**2%**	**-7%**	**-7%**	**-7%**
Waste Management									
Total Revenue (incl capital grants and transfers)	4108482	4370470	4742077.6	5263500	5263509	5263509	5528500	5860210	6211822.6
Operating Expensiture	5603089	6293531	5930570.6	8883595	8881976	8881976	8259223	8754776.4	9280063
Surplus/(Defict) for the year	**-1494607**	**-1923061**	**-1188493**	**-3620095**	**-3618467**	**-3618467**	**-2730723**	**-2894566**	**-3068240**
Percentage Surplus/(Deficit)	**-36%**	**-44%**	**-25%**	**-69%**	**-69%**	**-69%**	**-49%**	**-49%**	**-49%**

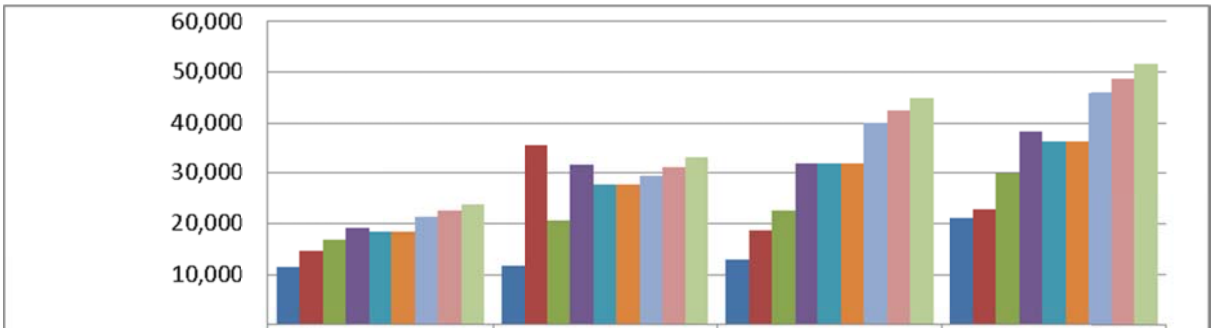
2. The electricity trading surplus is deteriorating over the 2012/13 MTREF from 2% per cent or R1 million in 2011/12 to -7 per cent by 2014/15. This is primarily as a result of the high increases in Eskom bulk purchases and the tariff setting policy of the municipality to buffer the impact of these increases on individual consumers.
3. The waste management deficit is decreasing over the 2012/2013 MTREF from 69 to 49 per cent then remains relatively constant over the MTREF.
4. Note that the surpluses on these trading accounts are to be utilized to cross-subsidise other municipal services which currently is not the case.

Table 14 MBRR Table A4 - Budgeted Financial Performance (revenue and expenditure)

KZN245 Umvoti - Table A4 Budgeted Financial Performance (revenue and expenditure)									
Description	2008/9	2009/10	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Revenue By Source									
Property rates	11,058	21,028	13,565	13,870	14,345	14,345	16,178	17,149	18,178
Property rates - penalties & collection charges	1,364	1,085	1,180	1,467	1,260	1,260	1,300	1,378	1,461
Service charges - electricity revenue	20,096	28,276	34,013	39,863	41,608	41,608	48,235	51,129	54,197
Service charges - water revenue	–	–	–	–	–	–	–	–	–
Service charges - sanitation revenue	–	–	–	–	–	–	–	–	–
Service charges - refuse revenue	4,108	4,359	4,726	4,987	5,264	5,264	5,529	5,860	6,212
Service charges - other	174	189	317	360	208	208	407	432	458
Rental of facilities and equipment	2,651	2,827	2,998	3,252	2,883	2,883	2,979	3,158	3,347
Interest earned - external investments	5,872	3,279	2,939	2,810	2,700	2,700	2,700	2,862	3,034
Interest earned - outstanding debtors	292	192	157	162	156	156	167	177	188
Dividends received									
Fines	675	434	325	854	324	324	404	428	454
Licences and permits	1,537	1,656	2,071	2,206	1,932	1,932	2,002	2,122	2,250
Agency services	757	817	925	1,069	1,015	1,015	1,016	1,077	1,142
Transfers recognised - operational	21,324	32,622	34,788	54,756	46,336	46,336	44,966	47,664	50,524
Other revenue	327	8,326	2,801	136	100	100	111	117	128
Gains on disposal of PPE	40	87	91		–	–			
Total Revenue (excluding capital transfers and contributions)	70,276	105,176	100,895	125,792	118,130	118,130	125,993	133,553	141,570
Expenditure By Type									
Employee related costs	21,084	22,891	29,809	38,229	36,306	36,306	45,842	48,593	51,508
Remuneration of councillors	3,926	4,348	4,316	5,046	5,000	5,000	5,858	6,209	6,582
Debt impairment	2,269	3,437	618	3,444	3,152	3,152	3,090	3,275	3,472
Depreciation & asset impairment	11,417	14,667	16,785	19,121	18,370	18,370	21,207	22,479	23,828
Finance charges		24	41		41	41			
Bulk purchases	12,856	18,640	22,479	32,000	32,000	32,000	40,000	42,400	44,944
Other materials									
Contracted services	6,403	11,281	10,862	14,490	12,745	12,745	6,839	7,249	7,685
Transfers and grants	2,163	1,534	1,390	–	1,300	1,300	2,311	2,449	2,596
Other expenditure	11,753	35,517	20,690	31,595	27,633	27,633	29,478	31,246	33,121
Loss on disposal of PPE									
Total Expenditure	71,872	112,338	106,989	143,926	136,546	136,546	154,624	163,902	173,737
Surplus/(Deficit)	(1,596)	(7,162)	(6,095)	(18,133)	(18,416)	(18,416)	(28,631)	(30,349)	(32,167)
Transfers recognised - capital	19,189	10,124	10,937	14,732	15,700	15,700	48,079	50,964	54,022
Contributions recognised - capital	–	–	–	–	–	–	–	–	–
Contributed assets									
Surplus/(Deficit) after capital transfers & contributions	17,593	2,962	4,842	(3,402)	(2,716)	(2,716)	19,448	20,614	21,855
Taxation									
Surplus/(Deficit) after taxation	17,593	2,962	4,842	(3,402)	(2,716)	(2,716)	19,448	20,614	21,855
Attributable to minorities									
Surplus/(Deficit) attributable to municipality	17,593	2,962	4,842	(3,402)	(2,716)	(2,716)	19,448	20,614	21,855
Share of surplus/ (deficit) of associate									
Surplus/(Deficit) for the year	17,593	2,962	4,842	(3,402)	(2,716)	(2,716)	19,448	20,614	21,855

Explanatory notes to Table A4 - Budgeted Financial Performance (revenue and expenditure)

1. Total revenue is R125.9 million in 2012/13 and escalates to R141.5 million by 2014/15. This represents a year-on-year increase of 6 per cent for the 2013/14 financial year and 6 per cent for the 2014/15 financial year.
2. Revenue to be generated from property rates is R16.1 million in the 2012/13 financial year and increases to R18.2 million by 2014/15 which represents 12.8 per cent of the operating revenue base of the Municipality and therefore remains a significant funding source for the municipality. It remains relatively constant over the medium-term and tariff increases have been factored in at 6 per cent for each of the respective financial years of the MTREF.
3. Services charges relating to electricity and refuse removal constitutes the biggest component of the revenue basket of the Municipality totalling R53.7 million for the 2012/13 financial year and increasing to R60.4 by 2014/15. For the 2012/13 financial year services charges amount to 42.7 per cent of the total revenue base and remains stagnant at 42.7 per cent per annum over the medium-term.
4. Transfers recognised – operating includes the local government equitable share and other operating grants from national and provincial government. It needs to be noted that in real terms the grants receipts from national government are growing rapidly over the MTREF by 6 per cent for the two outer years. The percentage share of this revenue source declines due to the more rapid relative growth in service charge revenues.
5. The following graph illustrates the major expenditure items per type.



	Depreciation & asset impairment	Other expenditure	Bulk purchases	Employee related costs
08/09 AUD	11,417	11,753	12,856	21,084
09/10 AUD	14,667	35,517	18,640	22,891
10/11 AUD	16,785	20,690	22,479	29,809
CY 11/12 BUD	19,121	31,595	32,000	38,229
CY 11/12 ADJ	18,370	27,633	32,000	36,306
CY 11/12 FCST	18,370	27,633	32,000	36,306
Budget Year 12/13	21,207	29,478	40,000	45,842
Budget Year 13/14	22,479	31,246	42,400	48,593
Budget Year 14/15	23,828	33,121	44,944	51,508

Figure 2 Expenditure by major type

6. Bulk purchases have significantly increased over the 2008/09 to 2014/15 period escalating from R12.8 million to R44.9 million. This increase can be attributed to the substantial increase in the cost of bulk electricity from Eskom.

7. Employee related costs and bulk purchases are the main cost drivers within the municipality and alternative operational gains and efficiencies will have to be identified to lessen the impact of wage and bulk tariff increases in future years.

Table 15 MBRR Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source

KZN245 Umvoti - Table A5 Budgeted Capital Expenditure by vote, standard classification and funding

Vote Description	Ref	2008/9	2009/10	2010/11	Current Year 2011/12				2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Capital expenditure - Vote											
Multi-year expenditure *to be appropriated*	2										
Vote 1 - EXECUTIVE AND COUNCIL		–	–	–	–	–	–	–	–	–	–
Vote 2 - BUDGET AND TREASURY OFFICE		–	–	–	–	–	–	–	–	–	–
Vote 3 - PLANNING AND DEVELOPMENT		–	–	–	–	–	–	–	–	–	–
Vote 4 - HEALTH		–	–	–	–	–	–	–	–	–	–
Vote 5 - COMMUNITY AND SOCIAL		–	–	–	–	–	–	–	–	–	–
Vote 6 - HOUSING		–	–	–	–	–	–	–	–	–	–
Vote 7 - PUBLIC SAFETY		–	–	–	–	–	–	–	–	–	–
Vote 8 - SPORT AND RECREATION		–	–	–	–	–	–	–	–	–	–
Vote 9 - ENVIRONMENTAL PROTECTION		–	–	–	–	–	–	–	–	–	–
Vote 10 - WASTE MANAGEMENT		–	–	–	–	–	–	–	–	–	–
Vote 11 - ROAD TRANSPORT		–	–	–	–	–	–	–	–	–	–
Vote 12 - ELECTRICITY		–	–	–	–	–	–	–	–	–	–
Vote 13 - OTHER		–	–	–	–	–	–	–	–	–	–
Vote 14 - CORPORATE SERVICES		–	–	–	–	–	–	–	–	–	–
Vote 15 - [NAME OF VOTE 15]		–	–	–	–	–	–	–	–	–	–
Capital multi-year expenditure sub-total	7	–	–	–	–	–	–	–	–	–	–
Single-year expenditure *to be appropriated*	2										
Vote 1 - EXECUTIVE AND COUNCIL		685	44	1	88	88	88	–	135	–	–
Vote 2 - BUDGET AND TREASURY OFFICE		6,930	219	75	563	563	581	–	435	–	–
Vote 3 - PLANNING AND DEVELOPMENT		–	1,316	–	–	–	–	–	–	–	–
Vote 4 - HEALTH		–	2	–	–	–	–	–	–	–	–
Vote 5 - COMMUNITY AND SOCIAL		–	600	1,313	98	98	76	–	6,622	–	–
Vote 6 - HOUSING		–	1,327	–	–	–	–	–	–	–	–
Vote 7 - PUBLIC SAFETY		16	–	84	14,968	14,968	1,489	–	690	–	–
Vote 8 - SPORT AND RECREATION		168	525	–	1,215	1,215	1,215	–	2,630	–	–
Vote 9 - ENVIRONMENTAL PROTECTION		–	–	–	–	–	–	–	–	–	–
Vote 10 - WASTE MANAGEMENT		1,456	132	175	1,530	1,530	230	–	1,650	–	–
Vote 11 - ROAD TRANSPORT		19,145	17,124	16,368	22,593	22,593	10,000	–	22,663	–	–
Vote 12 - ELECTRICITY		1,183	1,955	2,663	4,000	4,000	1,475	–	12,800	–	–
Vote 13 - OTHER		94	–	–	–	–	–	–	–	–	–
Vote 14 - CORPORATE SERVICES		–	437	417	312	312	99	–	483	–	–
Vote 15 - [NAME OF VOTE 15]		–	–	–	–	–	–	–	–	–	–
Capital single-year expenditure sub-total		29,677	23,681	21,096	45,366	45,366	15,252	–	48,108	–	–
Total Capital Expenditure - Vote		29,677	23,681	21,096	45,366	45,366	15,252	–	48,108	–	–
Capital Expenditure - Standard											
Governance and administration		–	–	–	–	–	–	–	1,070	–	–
Executive and council									215		
Budget and treasury office									454		
Corporate services									401		
Community and public safety		–	–	–	–	–	–	–	6,671	–	–
Community and social services									3,351		
Sport and recreation									2,630		
Public safety									690		
Housing											
Health											
Economic and environmental services		–	–	–	–	–	–	–	17,698	–	–
Planning and development									10		
Road transport									17,688		
Environmental protection											
Trading services		–	–	–	–	–	–	–	18,875	–	–
Electricity									12,800		
Water											
Waste water management									4,575		
Waste management									1,500		
Other									3,794		
Total Capital Expenditure - Standard	3	–	–	–	–	–	–	–	48,108	–	–
Funded by:											
National Government									48,079		
Provincial Government											
District Municipality											
Other transfers and grants											
Transfers recognised - capital	4	–	–	–	–	–	–	–	48,079	–	–
Public contributions & donations	5										
Borrowing	6										
Internally generated funds											
Total Capital Funding	7	–	–	–	–	–	–	–	48,079	–	–

Explanatory notes to Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source

1. Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.
2. The MFMA provides that a municipality may approve multi-year or single-year capital budget appropriations. I
3. Single-year capital expenditure has been appropriated at R48 million for the 2012/13 financial year and no provisions have been made for the outer years due to the diminishing cash flow of the Municipality. Should the municipality's financial situation not improve council would have to consider borrowing for any further capital requirements.
4. The capital programme is funded from provincial grants and transfers and internally generated funds from prior years surpluses.

Table 16 MBRR Table A6 - Budgeted Financial Position

Description	2008/9	2009/10	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
ASSETS									
Current assets									
Cash	1,760	1,464	2,631	200	968	968	891	10	10
Call investment deposits	50,133	38,768	45,729	27,000	40,000	40,000	10,000	–	–
Consumer debtors	4,848	15,018	16,343	13,500	11,694	11,694	11,694	8,919	5,747
Other debtors	2,869	2,373	5,478	3,300	3,300	3,300	3,000	3,100	3,200
Current portion of long-term receivables	24	21	24	20	20	20	20	20	15
Inventory	1,197	1,312	1,254	1,900	1,700	1,700	1,800	1,900	2,000
Total current assets	60,831	58,957	71,459	45,920	57,682	57,682	27,405	13,949	10,972
Non current assets									
Long-term receivables	81	62	34	70	60	60	60	55	50
Investments									
Investment property	43,036	46,824	64,189	47,000	64,189	64,189	65,000	70,000	75,000
Investment in Associate									
Property, plant and equipment	96,026	105,432	109,738	134,606	117,700	117,700	168,493	207,014	247,186
Agricultural									
Biological									
Intangible									
Other non-current assets									
Total non current assets	139,143	152,319	173,962	181,676	181,949	181,949	233,553	277,069	322,236
TOTAL ASSETS	199,974	211,276	245,421	227,596	239,631	239,631	260,958	291,018	333,208
LIABILITIES									
Current liabilities									
Bank overdraft								2,746	17,381
Borrowing	–	107	125	100	50	50	–	–	–
Consumer deposits	1,614	1,769	1,849	2,000	2,000	2,000	2,200	2,400	2,600
Trade and other payables	25,204	15,920	22,788	23,373	20,042	20,042	21,000	22,500	23,000
Provisions	330	456	362	350					
Total current liabilities	27,148	18,252	25,124	25,823	22,092	22,092	23,200	27,646	42,981
Non current liabilities									
Borrowing	–	207	82	160	40	40	–	–	–
Provisions	–	7,906	8,000	7,906	8,000	8,000	8,000	8,000	8,000
Total non current liabilities	–	8,113	8,082	8,066	8,040	8,040	8,000	8,000	8,000
TOTAL LIABILITIES	27,148	26,365	33,206	33,889	30,132	30,132	31,200	35,646	50,981
NET ASSETS	172,827	184,910	212,215	193,707	209,499	209,499	229,758	255,372	282,227
COMMUNITY WEALTH/EQUITY									
Accumulated Surplus/(Deficit)	29,614	129,455	138,551	136,607	135,035	135,035	153,583	173,297	194,252
Reserves	143,212	55,455	73,664	57,100	74,464	74,464	76,175	82,075	87,975
Minorities' interests									
TOTAL COMMUNITY WEALTH/EQUITY	172,826	184,910	212,215	193,707	209,499	209,499	229,758	255,372	282,227

Explanatory notes to Table A6 - Budgeted Financial Position

1. Table A6 is consistent with international standards of good financial management practice, and improves understandability for councilors and management of the impact of the budget on the statement of financial position (balance sheet).
2. This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents Assets less Liabilities as "accounting" Community Wealth. The order of items within each group illustrates items in order of liquidity; i.e. assets readily converted to cash, or liabilities immediately required to be met from cash, appear first.
3. The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets of the municipality belong to the community.
4. Any movement on the Budgeted Financial Performance or the Capital Budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalents at year end. Similarly, the collection rate assumption should inform the budget appropriation for debt impairment which in turn would impact on the provision for bad debt. These budget and planning assumptions form a critical link in determining the applicability and relevance of the budget as well as the determination of ratios and financial indicators. In addition the funding compliance assessment is informed directly by forecasting the statement of financial position.

Table 17 MBRR Table A7 - Budgeted Cash Flow Statement

Description	2008/9	2009/10	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
CASH FLOW FROM OPERATING ACTIVITIES									
Receipts									
Ratepayers and other	37,263	50,925	63,107	74,795	69,094	69,094	78,327	83,027	88,012
Government - operating	21,324	29,831	34,399	46,486	46,336	46,336	44,966	47,664	50,524
Government - capital	19,189	12,915	11,326	16,433	15,700	15,700	48,079	50,964	54,022
Interest	5,872	3,279	2,939	2,810	2,700	2,700	2,700	2,862	3,034
Dividends									
Payments									
Suppliers and employees	(56,516)	(85,088)	(82,597)	(121,361)	(115,061)	(115,061)	(130,327)	(138,826)	(146,227)
Finance charges		(24)	(41)						
Transfers and Grants									
NET CASH FROM/(USED) OPERATING ACTIVITIES	27,132	11,839	29,133	19,163	18,769	18,769	43,745	45,691	49,365
CASH FLOWS FROM INVESTING ACTIVITIES									
Receipts									
Proceeds on disposal of PPE		85	91						
Decrease (Increase) in non-current debtors		19	27	20	20	20			
Decrease (increase) other non-current receivables									
Decrease (increase) in non-current investments									
Payments									
Capital assets	(29,677)	(24,073)	(21,096)	(40,495)	(26,332)	(26,332)	(72,000)	(61,000)	(64,000)
NET CASH FROM/(USED) INVESTING ACTIVITIES	(29,677)	(23,970)	(20,978)	(40,475)	(26,312)	(26,312)	(72,000)	(61,000)	(64,000)
CASH FLOWS FROM FINANCING ACTIVITIES									
Receipts									
Short term loans									
Borrowing long term/refinancing		314	(108)						
Increase (decrease) in consumer deposits	41	155	80	151	150				
Payments									
Repayment of borrowing									
NET CASH FROM/(USED) FINANCING ACTIVITIES	41	469	(28)	151	150	–	–	–	–
NET INCREASE/ (DECREASE) IN CASH HELD	(2,504)	(11,661)	8,128	(21,161)	(7,393)	(7,543)	(28,255)	(15,309)	(14,635)
Cash/cash equivalents at the year begin:	54,399	51,895	40,234	48,361	48,361	48,361	40,818	12,563	(2,746)
Cash/cash equivalents at the year end:	51,895	40,234	48,361	27,200	40,968	40,818	12,563	(2,746)	(17,381)

Table 18 MBRR Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation

Description	2008/9	2009/10	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Cash and investments available									
Cash/cash equivalents at the year end	51,895	40,234	48,361	27,200	40,968	40,818	12,563	(2,746)	(17,381)
Other current investments > 90 days	(2)	(1)	(1)	(0)	0	150	(1,672)	10	10
Non current assets - Investments	–	–	–	–	–	–	–	–	–
Cash and investments available:	51,893	40,232	48,360	27,200	40,968	40,968	10,891	(2,736)	(17,371)
Application of cash and investments									
Unspent conditional transfers	16,844	5,657	5,401	7,373	10,042	10,042	10,000	10,500	11,000
Unspent borrowing	–	–	–	–	–	–	–	–	–
Statutory requirements									
Other working capital requirements	1,609	(2,792)	(4,477)	(2,494)	(5,054)	(5,054)	(3,754)	(74)	3,003
Other provisions									
Long term investments committed	–	–	–	–	–	–	–	–	–
Reserves to be backed by cash/investments									
Total Application of cash and investments:	18,453	2,865	923	4,879	4,988	4,988	6,246	10,426	14,003
Surplus(shortfall)	33,441	37,367	47,437	22,321	35,980	35,980	4,645	(13,162)	(31,374)

Explanatory notes to Table A7 - Budgeted Cash Flow Statement

1. The budgeted cash flow statement is the first measurement in determining if the budget is funded.
2. It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.
3. It can be seen that the cash levels of the Municipality fell significantly over the 2008/09 to 2009/10 period owing directly to a net decrease in cash for the 2008/09 financial year of R11.6 million.
4. The approved 2011/12 MTREF provide for a further net decrease in cash of R21.1 million for the 2011/12 financial year resulting in an overall projected cash position of R27.2 million at year end.
5. As part of the 2011/12 mid-year review and Adjustments Budget this unsustainable cash position had to be addressed as a matter of urgency and various interventions were implemented such as the reduction of expenditure allocations and rationalization of spending priorities.
6. In addition the municipality ia undertaking an extensive debt collection drive which could increase the cash inflows drastically by the end of the financial year.
7. The 2012/13 MTREF has been informed by the planning principle of ensuring adequate cash reserves over the medium-term.
8. Cash and cash equivalents totals R12.5 million as at the end of the 2012/13 financial year and decrease to (R17.3) million by 2014/15. Drastic measures need to be undertaken to and a financial strategy need to be developed to bring the municipality back to financial stability.

Explanatory notes to Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation

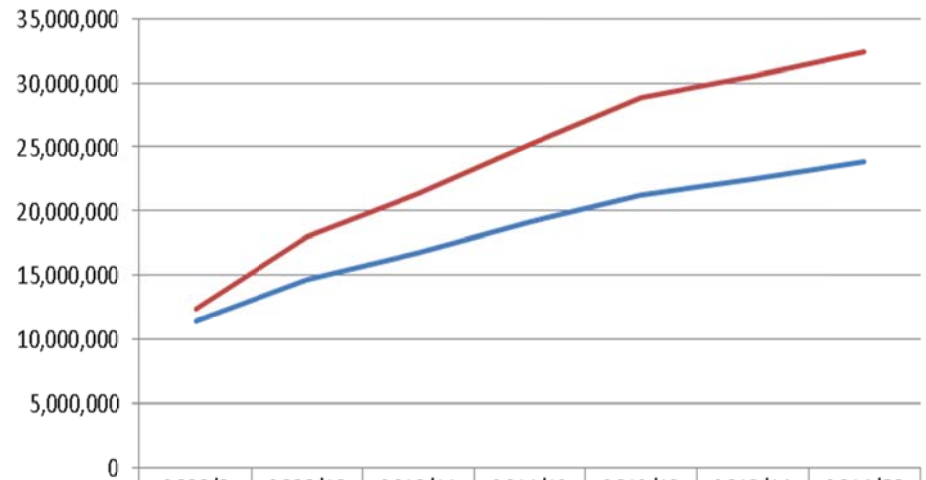
1. The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.
2. In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
3. The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality's budget must be "funded".
4. Non-compliance with section 18 of the MFMA is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded.
5. From the table it can be seen that for the period 2008/09 to 2011/12 the surplus deteriorated from 33.4 million to 22.3 million.
6. Considering the requirements of section 18 of the MFMA, it can be concluded that the adopted 2011/12 MTREF was full funded.
7. As part of the budgeting and planning guidelines that informed the compilation of the 2012/13 MTREF the end objective of the medium-term framework was to ensure the budget is funded aligned to section 18 of the MFMA.
8. As can be seen the budget has been modelled to progressively move from a surplus of 22.3 million in 2011/12 to a deficit of R31.3 million by 2014/15.

Table 19 MBRR Table A9 - Asset Management

Description	2008/9	2009/10	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
CAPITAL EXPENDITURE									
Total New Assets	–	–	–	30,211	30,211	20,015	48,108	–	–
Infrastructure - Road transport	–	–	–	16,011	16,011	12,000	18,662	–	–
Infrastructure - Electricity	–	–	–	4,033	4,033	4,033	12,800	–	–
Infrastructure - Water	–	–	–	–	–	–	–	–	–
Infrastructure - Sanitation	–	–	–	–	–	–	–	–	–
Infrastructure - Other	–	–	–	–	–	–	2,650	–	–
Infrastructure	–	–	–	*20,044*	*20,044*	*16,033*	*34,112*	–	–
Community	–	–	–	1,070	1,070	–	7,956	–	–
Heritage assets	–	–	–	–	–	–	–	–	–
Investment properties	–	–	–	–	–	–	–	–	–
Other assets	–	–	–	9,098	9,098	3,982	6,040	–	–
Agricultural Assets	–	–	–	–	–	–	–	–	–
Biological assets	–	–	–	–	–	–	–	–	–
Intangibles	–	–	–	–	–	–	–	–	–
Total Capital Expenditure									
Infrastructure - Road transport	–	–	–	16,011	16,011	12,000	18,662	–	–
Infrastructure - Electricity	–	–	–	4,033	4,033	4,033	12,800	–	–
Infrastructure - Water	–	–	–	–	–	–	–	–	–
Infrastructure - Sanitation	–	–	–	–	–	–	–	–	–
Infrastructure - Other	–	–	–	–	–	–	2,650	–	–
Infrastructure	–	–	–	*20,044*	*20,044*	*16,033*	*34,112*	–	–
Community	–	–	–	1,070	1,070	–	7,956	–	–
Heritage assets	–	–	–	–	–	–	–	–	–
Investment properties	–	–	–	–	–	–	–	–	–
Other assets	–	–	–	9,098	9,098	3,982	6,040	–	–
Agricultural Assets	–	–	–	–	–	–	–	–	–
Biological assets	–	–	–	–	–	–	–	–	–
Intangibles	–	–	–	–	–	–	–	–	–
TOTAL CAPITAL EXPENDITURE - Asset class	–	–	–	30,211	30,211	20,015	48,108	–	–
Community									
Heritage assets									
Investment properties	43,036	46,824	64,189	47,000	64,189	64,189	65,000	70,000	75,000
Other assets									
Agricultural Assets	–	–	–	–	–	–	–	–	–
Biological assets	–	–	–	–	–	–	–	–	–
Intangibles	–	–	–	–	–	–	–	–	–
TOTAL ASSET REGISTER SUMMARY - PPE (WD\	43,036	46,824	64,189	47,000	64,189	64,189	65,000	70,000	75,000
EXPENDITURE OTHER ITEMS									
Depreciation & asset impairment	11,417	14,667	16,785	19,121	18,370	18,370	21,207	22,479	23,828
Repairs and Maintenance by Asset Class	948	3,435	4,549	6,090	6,090	–	7,636	8,094	8,580
Infrastructure - Road transport	–	838	1,320	2,002	2,002	–	2,160	2,290	2,427
Infrastructure - Electricity	–	1,874	2,081	2,100	2,100	–	2,420	2,565	2,719
Infrastructure - Water	–	–	–	–	–	–	–	–	–
Infrastructure - Sanitation	–	–	–	–	–	–	–	–	–
Infrastructure - Other	–	–	–	–	–	–	–	–	–
Infrastructure	–	*2,712*	*3,401*	*4,102*	*4,102*	–	*4,580*	*4,855*	*5,146*
Community	–	–	–	–	–	–	–	–	–
Heritage assets	–	–	–	–	–	–	–	–	–
Investment properties	–	–	–	–	–	–	–	–	–
Other assets	948	723	1,147	1,988	1,988	–	3,056	3,240	3,434
TOTAL EXPENDITURE OTHER ITEMS	12,365	18,102	21,333	25,211	24,460	18,370	28,843	30,574	32,408
Renewal of Existing Assets as % of total capex	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Renewal of Existing Assets as % of deprecn"	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
R&M as a % of PPE	*1.0%*	*3.3%*	*4.1%*	*4.5%*	*5.2%*	*0.0%*	*4.5%*	*3.9%*	*3.5%*
Renewal and R&M as a % of PPE	*2.0%*	*7.0%*	*7.0%*	*13.0%*	*9.0%*	*0.0%*	*12.0%*	*12.0%*	*11.0%*

Explanatory notes to Table A9 - Asset Management

1. Table A9 provides an overview of municipal capital allocations to building new assets and should include the renewal of existing assets, as well as spending on repairs and maintenance by asset class.
2. National Treasury has recommended that municipalities should allocate at least 40 per cent of their capital budget to the renewal of existing assets which is not the case at the municipality, and allocations to repairs and maintenance should be 8 per cent of PPE. The Municipality does not meet both these recommendations.
3. The following graph provides an analysis between depreciation and operational repairs and maintenance over the MTREF. It highlights the municipalty's strategy to address the maintenance backlog.



	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14	2014/50
Repairs and maintenance (Operational)	948,164	3,386,798	4,548,528	6,089,966	7,636,250	8,094,425	8,580,091
Depreciation & asset impairment	11,416,692	14,666,944	16,784,879	19,121,272	21,207,038	22,479,460	23,828,227

Figure 3 Depreciation in relation to repairs and maintenance over the MTREF

Part 2 – Supporting Documentation

2.1 Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the MMC for Finance.

The primary aims of the Budget Steering Committee is to ensure:

- that the process followed to compile the budget complies with legislation and good budget practices;
- that there is proper alignment between the policy and service delivery priorities set out in the Municipality's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

2.1.1 Budget Process Overview

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2010) a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled in Council the required the IDP and budget time schedule on 25 August 2011. Key dates applicable to the process were:

- **August 2011** – Joint strategic planning session of the Mayoral Committee and Executive Management. Aim: to review past performance trends of the capital and operating budgets, the economic realities and to set the prioritisation criteria for the compilation of the 2012/13 MTREF;
- **November 2011** – Detail departmental budget proposals (capital and operating) submitted to the Budget and Treasury Office for consolidation and assessment against the financial planning guidelines;
- **3 to 7 January 2012 -** Review of the financial strategy and key economic and financial planning assumptions by the Budget Steering Committee. This included financial forecasting and scenario considerations;
- **January 2012** – Multi-year budget proposals are submitted to the Mayoral Committee for endorsement;
- **28 January 2012 -** Council considers the 2011/12 Mid-year Review and Adjustments Budget;

- **February 2012 -** Recommendations of the Mayoral Committee are communicated to the Budget Steering Committee, and on to the respective departments. The draft 2011/12 MTREF is revised accordingly;
- **25 March 20**12 **-** Tabling in Council of the draft 2012/13 IDP and 2012/13 MTREF for public consultation;
- **April 2012** – Public consultation;
- **6 May 2012 -** Closing date for written comments;
- **6 to 21 May 2012** – finalisation of the 2012/13 IDP and 2012/13 MTREF, taking into consideration comments received from the public, comments from National Treasury, and updated information from the most recent Division of Revenue Bill and financial framework; and
- **23 May 2012 -** Tabling of the 2012/13 MTREF before Council for consideration and approval.

There were deviations from the key dates set out in the Budget Time Schedule tabled in Council.

2.1.2 IDP and Service Delivery and Budget Implementation Plan

This is the new 5 year Draft IDP as adopted by Council in March 2012. It started in September 2011 after the tabling of the IDP Process Plan and the Budget Time Schedule for the 2012/13 MTREF in September.

The council's IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan. The Process Plan applicable to the new 5 year cylce included the following key IDP processes and deliverables:

- Registration of community needs;
- Compilation of departmental business plans including key performance indicators and targets;
- Financial planning and budgeting process;
- Public participation process;
- Compilation of the SDBIP, and
- The review of the performance management and monitoring processes.

The IDP has been taken into a business and financial planning process leading up to the 2012/13 MTREF, based on the approved 2011/12 MTREF, Mid-year Review and adjustments budget. The business planning process has subsequently been refined in the light of current economic circumstances and the resulting revenue projections.

With the compilation of the 2012/13 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the mid-year and third quarter performance against the 2011/12 Departmental Service Delivery and Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

2.1.3 Financial Modelling and Key Planning Drivers

As part of the compilation of the 2012/13 MTREF, extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2012/13 MTREF:

- Town's growth
- Policy priorities and strategic objectives
- Asset maintenance
- Economic climate and trends (i.e inflation, Eskom increases, household debt, migration patterns)
- Performance trends
- Landscaping
- Organisational transformation and expansion/diversification
- The approved 2011/12 adjustments budget and performance against the SDBIP
- Cash Flow Management Strategy
- Debtor payment levels
- Loan and investment possibilities
- The need for tariff increases versus the ability of the community to pay for services;
- Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars 51, 54 has been taken into consideration in the planning and prioritisation process.

2.1.4 Community Consultation

The draft 2012/13 MTREF as tabled before Council on 25 March 2012 for community consultation was published on the municipality's website, and hard copies were made available at customer care offices, municipal notice boards and various libraries. In addition a further development of this year's consultation process included the launch of E-based consultation. E-mail notifications were sent to all organisations on the municipality's database, including ratepayer associations, community-based organisations and organised business. The opportunity to give electronic feedback was also communicated on the Council's website, and the Council's call centre was engaged in collecting inputs via e-mail, fax and SMS.

All documents in the appropriate format (electronic and printed) were provided to National Treasury, and other national and provincial departments in accordance with section 23 of the MFMA, to provide an opportunity for them to make inputs.

Ward Committees were utilised to facilitate the community consultation process from 18 of April 2012 to 10 May 2012, and included eleven public briefing sessions. The applicable dates and venues were published in all the local newspapers and on average attendance of 200 per meeting. This is up on the previous year's process. This can be attributed to the additional initiatives that were launched during the consultation process, including individual ward to ward consultation, the specific targeting of ratepayer associations. Individual sessions were scheduled with organised business and imbizo's were held to further ensure transparency and interaction. Other stakeholders involved in the consultation included churches, non-governmental institutions and community-based organisations.

Submissions received during the community consultation process and additional information regarding revenue and expenditure and individual capital projects were addressed, and where

relevant considered as part of the finalisation of the 2012/13 MTREF. Feedback and responses to the submissions received are available on request. The following are some of the issues and concerns raised as well as comments received during the consultation process:

- Capital expenditure is not allocated to the areas in the same ratio as the income derived from those areas. This is a normal practice in a collective taxation environment. The Municipal area is responsible for managing the equitable use of resources to ensure that constitutional imperative to progressively improve basic services in undeveloped areas is realized in a sustainable manner over a reasonable period of time;
- Several complaints were received regarding poor service delivery, especially waste removal backlogs and the state of road infrastructure;
- Poor performance of contractors relating to infrastructure development and maintenance especially in the areas of road construction and maintenance were raised;
- Issues were raised regarding the payment of bonuses to senior managers;
- Remuneration packages of council officials were criticized as being very high, relative their private sector counterparts within the Municipal area;
- The affordability of tariff increases, especially electricity municipal area, was raised on numerous occasions. This concern was also raised by organized business as an obstacle to economic growth;
- Pensioners cannot afford the tariff increases due to low annual pension increases; and
- During the community consultation process large sections of the community made it clear that they are not in favour of any further tariff increases to fund additional budget requests. They indicated that the municipality must do more to ensure efficiencies and value for money.
- A request to give some consideration to youth and women development initiatives
- Agricultural development seemed to be at the top of the development priority list especially in “rural”/marginalized wards.

Significant changes effected in the final 2012/13 MTREF compared to the draft 2011/12 MTREF that was tabled for community consultation, include:

- The final Eskom bulk tariff increase, applicable to municipalities from 1 July 2012, was factored into the proposed consumer tariffs, applicable from 1 July 2012. This resulted in an increase of 20 per cent;

2.2 Overview of alignment of annual budget with IDP

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

Municipalities in South Africa need to utilise integrated development planning as a method to plan future development in their areas and so find the best solutions to achieve sound long-term development goals. A municipal IDP provides a five year strategic programme of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents. The plan aligns the resources and the capity area of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which municipalities use to provide vision, leadership and direction to all those that have a role to play in the development of a municipal area. The IDP enables municipalities to make the best use of scarce resources and speed up service delivery.

Integrated developmental planning in the South African context is amongst others, an approach to planning aimed at involving the municipality and the community to jointly find the best solutions towards sustainable development. Furthermore, integrated development planning provides a strategic environment for managing and guiding all planning, development and decision making in the municipality.

It is important that the IDP developed by municipalities correlate with National and Provincial intent. It must aim to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life for all the people living in that area. Applied to the Municipal area, issues of national and provincial importance should be reflected in the IDP of the municipality. A clear understanding of such intent is therefore imperative to ensure that the Municipal area strategically complies with the key national and provincial priorities.

The aim of this revision cycle was to develop and coordinate a coherent plan to improve the quality of life for all the people living in the area, also reflecting issues of national and provincial importance. One of the key objectives is therefore to ensure that there exists alignment between national and provincial priorities, policies and strategies and the Council's response to these requirements.

The national and provincial priorities, policies and strategies of importance include amongst others:

- Green Paper on National Strategic Planning of 2009;
- Government Programme of Action;
- Development Facilitation Act of 1995;
- Provincial Growth and Development Strategy (PGDS);
- National and Provincial spatial development perspectives;
- Relevant sector plans such as transportation, legislation and policy;
- National Key Performance Indicators (NKPIs);
- Accelerated and Shared Growth Initiative (ASGISA);
- National 2014 Vision;
- National Spatial Development Perspective (NSDP) and
- The National Priority Outcomes (outcome 9).

The Constitution requires local government to relate its management, budgeting and planning functions to its objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP, but must also conduct its affairs in a manner which is consistent with its IDP. The following table highlights the IDP's five strategic objectives for the 2012/13 MTREF and further planning refinements that have directly informed the compilation of the budget:

Table 20 IDP Strategic Objectives

2012/13 Financial Year	2012/13 MTREF
1. The provision of quality basic services and infrastructure	1. Provision of quality basic services and infrastructure
2. Acceleration of higher and shared economic growth and development	2.1 Economic growth and development that leads to sustainable job creation

	2.2 Establishment of self sustaining communities by improving access to ward based community development programs
3. Fighting of poverty, building clean, healthy, safe and sustainable communities	3.1 Fight poverty and build clean, healthy, safe and sustainable communities
	3.2 Integrated Social Services for empowered and sustainable communities
4. Fostering participatory democracy and adherence to Batho Pele principles through a caring, accessible and accountable service	4. Foster participatory democracy and Batho Pele principles through a caring, accessible and accountable service
5. Good governance, Financial viability and institutional governance	5.1 Promote sound governance
	5.2 Ensure financial sustainability
	5.3 Optimal institutional transformation to ensure capacity in the municipal area to achieve set 5.4 objectives Restructuring and re-alignment of organisational human capacity in the municipal area to 5.5 organisational needs as per the IDP objectives Develop a strong skills base internally and 5.6 externally Enhancement of revenue base Compliance with all public financial regulations 5.7 and legislations 5.8 Ensure operation clean audit 2014 Promote a transparent governance

In order to ensure integrated and focused service delivery between all spheres of government it was important for the municipality to align its budget priorities with that of national and provincial government. All spheres of government place a high priority on infrastructure development, economic development and job creation, efficient service delivery, poverty alleviation and building sound institutional arrangements.

Local priorities were identified as part of the IDP process which is directly aligned to that of the national and provincial priorities. The key performance areas can be summarised as follows against the five strategic objectives:

1. Provision of quality basic services and infrastructure which includes, amongst others:
    - Provide electricity in the municipal area;
    - Provide waste removal;
    - Provide housing;
    - Provide roads and storm water;
    - Provide public transport;
    - Provide municipal area planning services; and
    - Maintaining the infrastructure of the municipal area.

2. Economic growth and development that leads to sustainable job creation by:
    - Ensuring the is a clear structural plan for the municipal area;
    - Ensuring planning processes function in accordance with set timeframes;
    - Facilitating the use of labour intensive approaches in the delivery of services and the building of infrastructure.
    - Establishment of self sustaining communities by improving access to ward based community development programs

3.1 Fight poverty and build clean, healthy, safe and sustainable communities:
- Effective implementation of the Indigent Policy;
- Working with the provincial department of health to provide primary health care services;
- Extending waste removal services and ensuring effective municipal area cleansing;
- Ensuring all waste water treatment works are operating optimally;
- Working with strategic partners such as SAPS to address crime;
- Ensuring save working environments by effective enforcement of building and health regulations;
- Promote viable, sustainable communities through proper zoning; and
- Promote environmental sustainability by protecting wetlands and key open spaces.
- Establishment of self sustaining communities by improving access to ward based community development programs

3.2 Integrated Social Services for empowered and sustainable communities
- Work with provincial departments to ensure the development of community infrastructure such as schools and clinics is properly co-ordinated with the informal settlements upgrade programme

4. Foster participatory democracy and Batho Pele principles through a caring, accessible and accountable service by:
- Optimising effective community participation in the ward committee system; and
- Implementing Batho Pele in the revenue management strategy.

5.1 Promote sound governance through:
- Publishing the outcomes of all tender processes on the municipal website
- Promote transparent governance

5.2 Ensure financial sustainability through:
- Reviewing the use of contracted services
- Continuing to implement the infrastructure renewal strategy and the repairs and maintenance plan
- Enhancement of revenue base
- Compliance with all public financial regulations and legislations
- Ensure operation clean audit 2014

a. Optimal institutional transformation to ensure capacity in the municipal area to achieve set objectives
- Review of the organizational structure to optimize the use of personnel;
- Develop a strong skills base internally and externally
- Restructuring and re-alignment of organisational human capacity in the municipal area to organisational needs as per the IDP objectives

In line with the MSA, the IDP constitutes a single, inclusive strategic plan for the Municipal area. The five-year programme responds to the development challenges and opportunities faced by the Municipal area by identifying the key performance areas to achieve the five the strategic objectives mentioned above.

In addition to the five-year IDP, the council undertakes an extensive planning and developmental approach which primarily focuses on a longer-term horizon; 15 to 20 years. This process is aimed at influencing the development path by proposing a substantial programme of public-led investment to restructure current patterns of settlement, activity and access to resources in the municipality so as to promote greater equity and enhanced opportunity. The approach specifically targets future developmental opportunities in traditional dormitory settlements and previous privately owned land. It provides direction to the council's IDP, associated sectoral plans and strategies, and the allocation of resources of the town and other service delivery partners.

This development approach introduces important policy shifts which have further been translated into eight strategic focus areas/objectives as outlined below:

- Developing dormant areas – urbanization and industrialization;
- Enforcing hard development lines – so as to direct private investment;
- Maintaining existing urban areas;
- Strengthening key economic clusters;
- Building a sound robust skills base
- Building social cohesion;
- Strong developmental initiatives in relation to the municipal institution as a whole; and
- Sound financial fundamentals.

Lessons learned with previous IDP revision and planning cycles as well as changing environments were taken into consideration in the compilation of the fourth revised IDP, including:

- Strengthening the analysis and strategic planning processes of the town;
- Initiating zonal planning processes that involve the communities in the analysis and planning processes. More emphasis was placed on area based interventions, within the overall holistic framework;
- Ensuring better coordination through a programmatic approach and attempting to focus the budgeting process through planning interventions; and
- Strengthening performance management and monitoring systems in ensuring the objectives and deliverables are achieved.

The 2012/13 MTREF has therefore been directly informed by the IDP revision process and the following tables provide a reconciliation between the IDP strategic objectives and operating revenue, operating expenditure and capital expenditure.

2.2.1.1 Liquidity

- *Current ratio* is a measure of the current assets divided by the current liabilities and as a benchmark the Municipality has set a limit of 1, hence at no point in time should this ratio be less than 1. For the 2012/13 MTREF the current ratio is 1.2 in the 2011/12 financial year the ratio was 1.3 and 0.5 for the two outer years of the MTREF. Going forward it will be necessary to Increase these levels.

- *The liquidity ratio* is a measure of the ability of the municipality to utilize cash and cash equivalents to extinguish or retire its current liabilities immediately. Ideally the municipality should have the equivalent cash and cash equivalents on hand to meet at least the current liabilities, which should translate into a liquidity ratio of 1. Anything below 1 indicates a shortage in cash to meet creditor obligations. For the 2011/12 financial year the ratio was 0.3 and has decreased to 0.2 in the 2012/13 financial year.

This needs to be considered a pertinent risk for the municipality as any under collection of revenue will translate into serious financial challenges for the municipality. As part of the longer term financial planning objectives this ratio will have to be set at a minimum of 1.

2.2.1.2 Revenue Management

- As part of the financial sustainability strategy, an aggressive revenue management framework has to be implemented to increase cash inflow, not only from current billings but also from debtors that are in arrears in excess of 90 days. The intention of the strategy is to streamline the revenue value chain by ensuring accurate billing, customer service, credit control and debt collection.

2.2.1.3 Creditors Management

- The Municipality has managed to ensure that creditors are settled within the legislated 30 days of invoice. While the liquidity ratio is of concern, by applying daily cash flow management the municipality has managed to ensure a 100 per cent compliance rate to this legislative obligation. This has had a favourable impact on suppliers' perceptions of risk of doing business with the municipality, which is expected to benefit the Municipality in the form of more competitive pricing of tenders, as suppliers compete for the Municipality's business.

2.2.1.4 Other Indicators

- The electricity distribution losses have been managed downwards from 18 per cent in the 2010/11 financial year to 7 per cent over the MTREF. The initiatives to ensure these targets are achieved include managing illegal connections and theft of electricity by monitoring the metering systems, including prepaid meters and regularly conducting meter sweeps and installing of tamper proof kiosk.

- Employee costs as a percentage of operating revenue continues to decrease over the MTREF. This is primarily owing to the high increase in bulk purchases which directly increase revenue levels, as well as increased allocation relating to operating grants and transfers.

- Similar to that of employee costs, repairs and maintenance as percentage of operating revenue is also decreasing owing directly to cost drivers such as bulk purchases increasing far above inflation. In real terms, repairs and maintenance has increased as part of the Municipality's strategy to ensure the management of its asset base.

2.2.2 Free Basic Services: basic social services package for indigent households

The social package assists residents that have difficulty paying for services and are registered as indigent households in terms of the Indigent Policy of the Municipality.

For the 2011/12 financial year 90 000 registered indigents have been provided for in the budget with this figured increasing to 105 000 by 2013/14. In terms of the Municipality's indigent policy registered households are entitled to 50 kwh of electricity and a rebate of R 40.00 per month for waste removal, as well as a discount on their property rates.

2.3 Overview of budget related-policies

The Municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

2.3.1 Review of credit control and debt collection procedures/policies

The Collection Policy as approved by Council in February 2009 and is currently under review. While the adopted policy is credible, sustainable, manageable and informed by affordability and value for money there has been a need to review certain components to achieve a higher collection rate. Some of the possible revisions will include the lowering of the credit periods for the down payment of debt. In addition emphasis will be placed on speeding up the indigent registration process to ensure that credit control and debt collection efforts are not fruitlessly wasted on these debtors.

As most of the indigents within the municipal area are unable to pay for municipal services because they are unemployed, aims to link the registered indigent households to development, skills and job opportunities are currently been undertaken and local businesses are being encourage to source skills locally.

The 2012/13 MTREF has been prepared on the basis of achieving an average debtors' collection rate of 85 per cent on current billings. In addition the collection of debt in excess of 90 days has been prioritised as a pertinent strategy in increasing the Municipality's cash levels.

2.3.2 Asset Management, Infrastructure Investment and Funding Policy

A proxy for asset consumption can be considered the level of depreciation each asset incurs on an annual basis. Preserving the investment in existing infrastructure needs to be considered a significant strategy in ensuring the future sustainability of infrastructure and the Municipality's revenue base. Within the framework, the need for asset renewal it to be considered a priority and hence the capital programme needs to be determined based on renewal of current assets versus new asset construction.

Further, continued improvements in technology generally allows many assets to be renewed at a lesser 'real' cost than the original construction cost. Therefore, it is considered prudent to allow for a slightly lesser continual level of annual renewal than the average annual depreciation. The Asset Management, Infrastructure and Funding Policy is therefore considered a strategic guide in ensuring a sustainable approach to asset renewal, repairs and maintenance and should be utilised as a guide to the selection and prioritisation of individual capital projects. In addition the policy prescribes the accounting and administrative policies and procedures relating to property, plant and equipment (fixed assets).

2.3.3 Budget Adjustment Policy

The adjustments budget process is governed by various provisions in the MFMA and is aimed at instilling and establishing an increased level of discipline, responsibility and accountability in the financial management practices of municipalities. To ensure that the Municipality continues to deliver on its core mandate and achieves its developmental goals, the mid-year review and

adjustment budget process is utilised to ensure that underperforming functions are identified and funds redirected to performing functions.

2.3.4 Supply Chain Management Policy

The Supply Chain Management Policy was adopted by Council in August 2009 . An amended policy will be considered by Council in due course of which the amendments will be extensively consulted on.

2.3.5 Budget and Virement Policy

The Budget and Virement Policy aims to empower senior managers with an efficient financial and budgetary amendment and control system to ensure optimum service delivery within the legislative framework of the MFMA and the Municipality's system of delegations. The Budget and Virement Policy was approved by Council in August 2009 and was amended on 16 February 2011 in respect of both Operating and Capital Budget Fund Transfers.

2.3.6 Cash Management and Investment Policy

The Municipality's Cash Management and Investment Policy were amended by Council in February 2011 and are currently under review. The aim of the policy is to ensure that the Municipality's surplus cash and investments are adequately managed, especially the funds set aside for the cash backing of certain reserves. The policy details the minimum cash and cash equivalents required at any point in time and introduces time frames to achieve certain benchmarks.

2.3.7 Tariff Policies

The Municipality's tariff policies provide a broad framework within which the Council can determine fair, transparent and affordable charges that also promote sustainable service delivery. The policies have been approved on various dates and a consolidated tariff policy is envisaged to be compiled for ease of administration and implementation of the next two years.

2.3.8 Financial Modelling and Scenario Planning Policy

The Financial Modelling and Scenario Planning Policy has directly informed the compilation of the 2012/13 MTREF with the emphasis on affordability and long-term sustainability. The policy dictates the approach to longer term financial modelling. The outcomes are then filtered into the budget process. The model and scenario planning outcomes are taken to Council every November and then translate into recommendations for the budget guidelines that inform the compilation of the next MTREF. One of the salient features of the policy is the emphasis on financial sustainability. Amongst others, the following has been modelled as part of the financial modelling and scenario planning process:

- Approved 2011/12 Adjustments Budget;
- Cash Flow Management Interventions, Initiatives and Strategies (including the cash backing of reserves);

- Economic climate and trends (i.e Inflation, household debt levels, indigent factors, growth, recessionary implications);
- Loan and investment possibilities;
- Performance trends;
- Tariff Increases;
- The ability of the community to pay for services (affordability);
- Policy priorities;
- Improved and sustainable service delivery; and
- Debtor payment levels.

All the above policies are available on the Municipality's website, as well as the following budget related policies:

- Property Rates Policy;
- Funding and Reserves Policy;
- Borrowing Policy;
- Budget Policy; and
- Basic Social Services Package (Indigent Policy).

2.4 Overview of budget assumptions

2.4.1 External factors

Domestically, after five years of strong growth, during which about two million jobs were created, our economy shrank by an estimated 1.8 per cent last year and about 900 000 people lost their jobs. It is expected that recovery from this deterioration will be slow and uneven, and that growth for 2012 will be 2.3 per cent rising to 3.6 per cent by 2013.

Owing to the economic slowdown, financial resources are limited due to reduced payment levels by consumers. This has resulted in declining cash inflows, which has necessitated restrained expenditure to ensure that cash outflows remain within the affordability parameters of the Municipality's finances.

2.4.2 General inflation outlook and its impact on the municipal activities

There are five key factors that have been taken into consideration in the compilation of the 2012/13 MTREF:

- National Government macro economic targets;
- The general inflationary outlook and the impact on Municipality's residents and businesses;
- The impact of municipal cost drivers;
- The increase in prices for bulk electricity; and
- The increase in the cost of remuneration. Employee related costs comprise 29.8 per cent of total operating expenditure in the 2012/13 MTREF and therefore this increase above inflation places a disproportionate upward pressure on the expenditure budget. The wage agreement has not yet been conclude by SALGBC and the municipal workers unions as well as the categorisation and job evaluation wage curves collective agreement and this will have an drastic impact on the budget when completed.

2.4.3 Interest rates for borrowing and investment of funds

The MFMA specifies that borrowing can only be utilised to fund capital or refinancing of borrowing in certain conditions. The Municipality engages in a number of financing arrangements to minimise its interest rate costs and risk.

2.4.4 Collection rate for revenue services

The base assumption is that tariff and rating increases will increase at a rate slightly higher that CPI over the long term. It is also assumed that current economic conditions, and relatively controlled inflationary conditions, will continue for the forecasted term.

The rate of revenue collection is currently expressed as a percentage (85 per cent) of annual billings. Cash flow is assumed to be 85 per cent of billings, plus an increased collection of arrear debt from the revised collection and credit control policy. The performance of arrear collections will however only be considered a source of additional cash in-flow once the performance has been carefully monitored.

2.4.5 Growth or decline in tax base of the municipality

Debtors revenue is assumed to increase at a rate that is influenced by the consumer debtors collection rate, tariff/rate pricing, real growth rate of the Municipality, household formation growth rate and the poor household change rate.

Household formation is the key factor in measuring municipal revenue and expenditure growth, as servicing ‘households’ is a greater municipal service factor than servicing individuals. Household formation rates are assumed to convert to household dwellings. In addition the change in the number of poor households influences the net revenue benefit derived from household formation growth, as it assumes that the same costs incurred for servicing the household exist, but that no consumer revenue is derived as the ‘poor household’ limits consumption to the level of free basic services.

2.4.6 Salary increases

The collective agreement regarding salaries/wages is still under discussions a budget provision of 5 per cent has been made in line with MFMA Circular No 58.

2.4.7 Impact of national, provincial and local policies

Integration of service delivery between national, provincial and local government is critical to ensure focussed service delivery and in this regard various measures were implemented to align IDPs, provincial and national strategies around priority spatial interventions. In this regard, the following national priorities form the basis of all integration initiatives:

- Creating jobs;
- Enhancing education and skill development;
- Improving Health services;

- Rural development and agriculture; and
- Fighting crime and corruption.

To achieve these priorities integration mechanisms are to be put in place to ensure integrated planning and execution of various development programs. The focus will be to strengthen the link between policy priorities and expenditure thereby ensuring the achievement of the national, provincial and local objectives.

2.4.8 Ability of the municipality to spend and deliver on the programmes

It is estimated that a spending rate of at least 80 per cent is achieved on operating expenditure and 70 per cent on the capital programme for the 2012/13 MTREF of which performance has been factored into the cash flow budget.

2.5 Overview of budget funding

2.5.1 Medium-term outlook: operating revenue

The following table is a breakdown of the operating revenue over the medium-term:

Table 21 Breakdown of the operating revenue over the medium-term

Description	2012/13 Medium Term Revenue & Expenditure Framework					
R thousand	Budget Year 2012/13	%	Budget Year +1 2013/14	%	Budget Year +2 2014/15	%
Property rates	16278000	13%	17148680	13%	18177602	13%
Service Charges	54170700	43%	57420942	43%	60866198	43%
Investment Revenue	2867000	2%	3039020	2%	3221361	2%
Transfers recognised - operational	44966000	36%	47663960	36%	50523797	36%
Agency Services	1016000	1%	1076960	1%	1141577	1%
Licence And permits	2002200	2%	2122332	2%	2249671	2%
Other own revenue	4693500	4%	5080830	4%	5389679	4%
Total Operating Revenue (excluding capital transfers and contributions)	125993400	100%	133552724	100%	141569885	100%
Total Operating Expenditure	154624324		163901981		173736719	
Surplus/(deficit)	-28630924		-30349257		-32166834	

The following graph is a breakdown of the operational revenue per main category for the 2012/13 financial year.

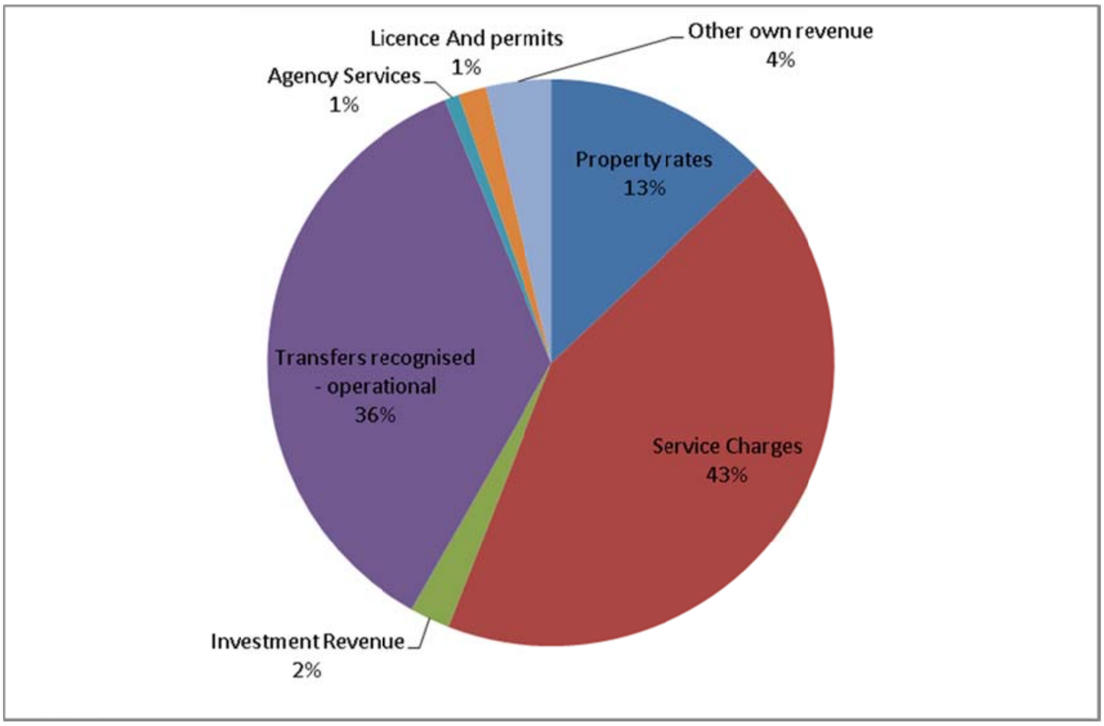


Figure 4 Breakdown of operating revenue over the 2012/13 MTREF

Tariff setting plays a major role in ensuring desired levels of revenue. Getting tariffs right assists in the compilation of a credible and funded budget. The Municipality derives most of its operational revenue from the provision of goods and services such electricity and solid waste removal. Property rates, operating and capital grants from organs of state and other minor charges (such as building plan fees, fines etc).

The revenue strategy is a function of key components such as:

- Growth in the city and economic development;
- Revenue management and enhancement;
- Achievement of a 85 per cent annual collection rate for consumer revenue;
- National Treasury guidelines;
- Electricity tariff increases within the National Electricity Regulator of South Africa (NERSA) approval;
- Achievement of full cost recovery of specific user charges;
- Determining tariff escalation rate by establishing/calculating revenue requirements;
- The Property Rates Policy in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA), and
- And the ability to extend new services and obtain cost recovery levels.

The above principles guide the annual increase in the tariffs charged to the consumers and the ratepayers aligned to the economic forecasts.

The proposed tariff increases for the 2012/13 MTREF on the different revenue categories are:

Table 22 Proposed tariff increases over the medium-term

Revenue category	2012/13 proposed tariff increase	2013/14 proposed tariff increase	2014/15 proposed tariff increase	2012/13 additional revenue for each 1% tariff increase	2012/13 additional revenue owing to % tariff increases	2012/13 Total Budgeted revenue
	%	%	%	R'000	R'000	R'000
Property rates	12.8	12.8	12.8	143	1833	16178
Solid Waste	4.4	4.4	4.4	60	265	5528
Electricity	38.3	38.3	38.3	173	6627	48235
Total				**376**	**8725**	**69941**

Revenue to be generated from property rates is R16.1 million in the 2012/13 financial year and increases to R18.1 million by 2014/15 which represents 12.8 per cent of the operating revenue base of the Municipality. It remains relatively constant over the medium-term. With the implementation of the Municipal Property Rates Act the basis of rating significantly changed.

As the levying of property rates is considered a strategic revenue source a further supplementary valuation process are undertaken continuously during financial year. The outcome of this initiative will be closely monitored and reported on a regular basis as part of the quarterly performance reporting.

Services charges relating to electricity, and refuse removal constitutes the biggest component of the revenue basket of the Municipality totaling R53.7 million for the 2012/13 financial year and increasing to R60.4 million by 2014/15. For the 2012/13 financial year services charges amount to 55.5 per cent of the total revenue base and grows by 6 per cent per annum over the medium-term. This growth can mainly be attributed to the increase in the bulk prices of electricity.

Operational grants and subsidies amount to R44.9 million, R47.6 million and R50.5 million for each of the respective financial years of the MTREF, or -3, 6 and 6 per cent of operating revenue. The percentage of the total operational grants and transfers in relation to the total operating revenue is distorted owing to the high increases in revenue relating to services charges.

Investment revenue contributes marginally to the revenue base of the Municipality with a budget allocation of R2.7 million, R2.8 million and R3 million for the respective three financial years of the 2012/13 MTREF. It needs to be noted that these allocations have been conservatively estimated and as part of the cash backing of reserves and provisions. The actual performance against budget will be carefully monitored. Any variances in this regard will be addressed as part of the mid-year review and adjustments budget.

The tables below provide detail investment information and investment particulars by maturity.

Table 23 MBRR SA15 – Detail Investment Information

Investments by Maturity	Period of Investment	Type of Investment	Expiry date of	Monetary value	Interest to be realised
Name of institution & Investment ID	Yrs/Months		investment	Rand thousand	
Absa Bank		Call Deposit		964	37
Absa Bank		Call Deposit		4,037	238
First National Bank	3	Short term deposit	12.07.2012	5,000	71
First National Bank	3	Short term deposit	23.07.2012	5,000	71
First National Bank	3	Short term deposit	15.08.2012	5,000	70
First National Bank	3	Short term deposit	28.06.2012	2,000	28
First National Bank	3	Short term deposit	13.07.2012	5,000	70
First National Bank	3	Short term deposit	19.06.2012	3,000	42
Nedbank	3	Short term deposit	01.06.2012	3,000	42
Nedbank	3	Short term deposit	28.06.2012	5,000	70
Standard Bank	3	Short term deposit	30.06.2011	5,000	70
Standard Bank	3	Short term deposit	15.08.2012	4,000	56
Standard Bank	3	Short term deposit	01.06.2012	5,000	70
Standard Bank	3	Short term deposit	01.06.2012	2,000	28
Standard Bank	3	Short term deposit	26.06.2012	5,000	70
Standard Bank	3	Short term deposit	15.08.2012	5,000	70
				64,001	**1,103**

2.5.2 Cash Flow Management

Cash flow management and forecasting is a critical step in determining if the budget is funded over the medium-term. The table below is consistent with international standards of good financial management practice and also improves understandability for councillors and management. Some specific features include:

- Clear separation of receipts and payments within each cash flow category;
- Clear separation of capital and operating receipts from government, which also enables cash from 'Ratepayers and other' to be provide for as cash inflow based on actual performance. In other words the *actual collection rate* of billed revenue., and
- Separation of borrowing and loan repayments (no set-off), to assist with MFMA compliance assessment regarding the use of long term borrowing (debt).

Table 24 MBRR Table A7 - Budget cash flow statement

Description	2008/9	2009/10	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
CASH FLOW FROM OPERATING ACTIVITIES									
Receipts									
Ratepayers and other	37,263	50,925	63,107	74,795	69,094	69,094	78,327	83,027	88,012
Government - operating	21,324	29,831	34,399	46,486	46,336	46,336	44,966	47,664	50,524
Government - capital	19,189	12,915	11,326	16,433	15,700	15,700	48,079	50,964	54,022
Interest	5,872	3,279	2,939	2,810	2,700	2,700	2,700	2,862	3,034
Dividends									
Payments									
Suppliers and employees	(56,516)	(85,088)	(82,597)	(121,361)	(115,061)	(115,061)	(130,327)	(138,826)	(146,227)
Finance charges		(24)	(41)						
Transfers and Grants									
NET CASH FROM/(USED) OPERATING ACTIVITIES	27,132	11,839	29,133	19,163	18,769	18,769	43,745	45,691	49,365
CASH FLOWS FROM INVESTING ACTIVITIES									
Receipts									
Proceeds on disposal of PPE		85	91						
Decrease (Increase) in non-current debtors		19	27	20	20	20			
Decrease (increase) other non-current receivables									
Decrease (increase) in non-current investments									
Payments									
Capital assets	(29,677)	(24,073)	(21,096)	(40,495)	(26,332)	(26,332)	(72,000)	(61,000)	(64,000)
NET CASH FROM/(USED) INVESTING ACTIVITIES	(29,677)	(23,970)	(20,978)	(40,475)	(26,312)	(26,312)	(72,000)	(61,000)	(64,000)
CASH FLOWS FROM FINANCING ACTIVITIES									
Receipts									
Short term loans									
Borrowing long term/refinancing		314	(108)						
Increase (decrease) in consumer deposits	41	155	80	151	150				
Payments									
Repayment of borrowing									
NET CASH FROM/(USED) FINANCING ACTIVITIES	41	469	(28)	151	150	–	–	–	–
NET INCREASE/ (DECREASE) IN CASH HELD	(2,504)	(11,661)	8,128	(21,161)	(7,393)	(7,543)	(28,255)	(15,309)	(14,635)
Cash/cash equivalents at the year begin:	54,399	51,895	40,234	48,361	48,361	48,361	40,818	12,563	(2,746)
Cash/cash equivalents at the year end:	51,895	40,234	48,361	27,200	40,968	40,818	12,563	(2,746)	(17,381)

The above table shows that cash and cash equivalents of the Municipality will largely be depleted 2013/14 financial year moving from a positive cash balance of 40.8 million to a balance of R12.5 million with the approved 2012/13 MTREF. With the 2011/12 adjustments budget various cost efficiencies and savings had to be realised to ensure the Municipality could meet its operational expenditure commitments. In addition the Municipality undertook an extensive debt collection process to boost cash levels. These initiatives and interventions have translated into a positive cash position for the Municipality and it is projected that cash and cash equivalents on hand will only decrease to R40.8 million by the financial year end.

2.6 Cash Backed Reserves/Accumulated Surplus Reconciliation

This following table meets the requirements of MFMA Circular 42 which deals with the funding of a municipal budget in accordance with sections 18 and 19 of the MFMA. The table seeks to answer three key questions regarding the use and availability of cash:

- What are the predicted cash and investments that are available at the end of the budget year?
- How are those funds used?
- What is the net funds available or funding shortfall?

A surplus would indicate the cash-backed accumulated surplus that was/is available. A shortfall (applications > cash and investments) is indicative of non-compliance with section 18 of the MFMA requirement that the municipality's budget must be 'funded'. Non-compliance with

section 18 is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded (budgeted spending is greater than funds available or to be collected). It is also important to analyse trends to understand the consequences, e.g. the budget year might indicate a small surplus situation, which in itself is an appropriate outcome, but if in prior years there were much larger surpluses then this negative trend may be a concern that requires closer examination.

Table 25 MBRR Table A8 - Cash backed reserves/accumulated surplus reconciliation

Description	2008/9	2009/10	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Cash and investments available									
Cash/cash equivalents at the year end	51,895,000	40,233,604	48,361,269	27,200,078	40,967,527	40,817,527	12,563,000	-2,746,000	-17,381,000
Other current investments > 90 days	-1,677	-1,291	-1,291	-78	304	150,304	-1,671,962	10,038	10,000
Non current assets - Investments	0	0	0	0	0	0	0	0	0
Cash and investments available:	**51,893,323**	**40,232,313**	**48,359,978**	**27,200,000**	**40,967,831**	**40,967,831**	**10,891,038**	**-2,735,962**	**-17,371,000**
Application of cash and investments									
Unspent conditional transfers	16,843,959	5,656,583	5,400,543	7,373,000	10,042,304	10,042,304	10,000,000	10,500,000	11,000,000
Unspent borrowing	0	0	0	0	0	0	0	0	0
Statutory requirements									
Other working capital requirements	1,608,706	-2,791,623	-4,477,224	-2,494,000	-5,054,000	-5,054,000	-3,754,000	-74,000	3,003,000
Other provisions									
Long term investments committed	0	0	0	0	0	0	0	0	0
Reserves to be backed by cash/investments									
Total Application of cash and investments:	**18,452,665**	**2,864,960**	**923,319**	**4,879,000**	**4,988,304**	**4,988,304**	**6,246,000**	**10,426,000**	**14,003,000**
Surplus(shortfall)	**33,440,658**	**37,367,353**	**47,436,659**	**22,321,000**	**35,979,527**	**35,979,527**	**4,645,038**	**-13,161,962**	**-31,374,000**

From the above table it can be seen that the cash and investments available total R10.8 million in the 2012/13 financial year and radically decrease to (31.3 million) by 2014/15, including the projected cash and cash equivalents as determined in the cash flow forecast. The following is a breakdown of the application of this funding:

- Unspent conditional transfers (grants) are automatically assumed to be an obligation as the municipality has received government transfers in advance of meeting the conditions. Ordinarily, unless there are special circumstances, the municipality is obligated to return unspent conditional grant funds to the national revenue fund at the end of the financial year. In the past these have been allowed to 'roll-over' and be spent in the ordinary course of business, but this practice has been discontinued.
- The main purpose of other working capital is to ensure that sufficient funds are available to meet obligations as they fall due. A key challenge is often the mismatch between the timing of receipts of funds from debtors and payments due to employees and creditors. High levels of debtor non-payment and receipt delays will have a greater requirement for working capital. For the purpose of the cash backed reserves and accumulated surplus reconciliation a provision equivalent to one month's operational expenditure has been provided for. It needs to be noted that although this can be considered prudent, the desired cash levels should be 60 days to ensure continued liquidity of the municipality. Any underperformance in relation to collections could place upward pressure on the ability of the Municipality to meet its creditor obligations.

It can be concluded that the Municipality has a small Surplus against the cash backed and accumulated surpluses reconciliation. The level of non-cash-backing progressively deteriorates over the period 2003/14 to 2014/15 decreasing from R5.6 million to R31.3 million in 2014/15.

The municipality has essentially depleted all cash reserves which is a serious concern and should be considered a strategic risk to the financial stability of the Municipality. As part of the planning strategy, this deficit needs to be aggressively managed downwards and as part of the medium term planning objectives. It is aimed that by 2014/15 this deficit should have been significantly reduced.

The following graph supplies an analysis of the trends relating cash and cash equivalents and the cash backed reserves/accumulated funds reconciliation over a seven year perspective.

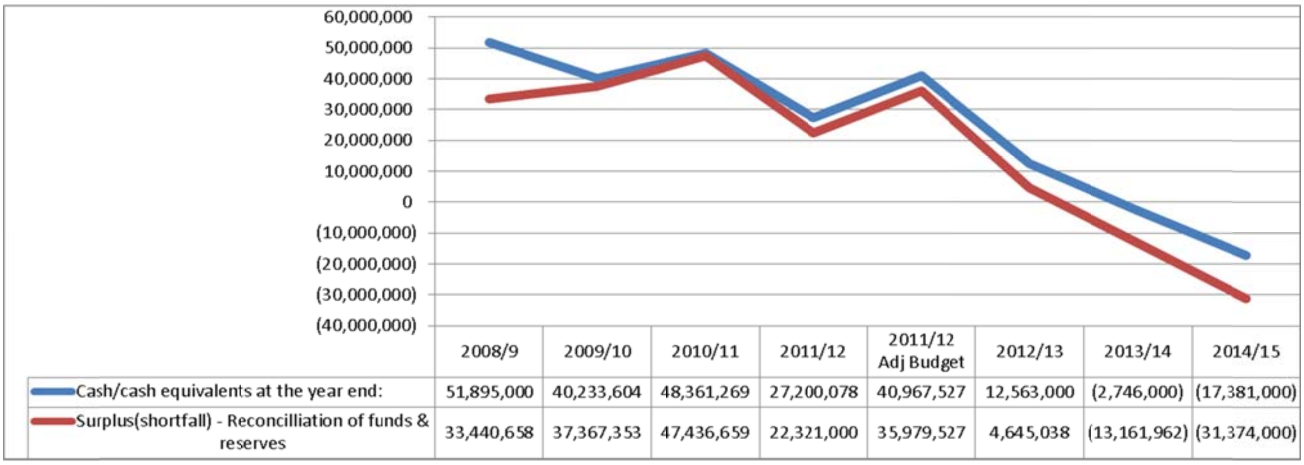


Figure 5 Cash and cash equivalents / Cash backed reserves and accumulated funds

2.6.1 Funding compliance measurement

National Treasury requires that the municipality assess its financial sustainability against fourteen different measures that look at various aspects of the financial health of the municipality. These measures are contained in the following table. All the information comes directly from the annual budgeted statements of financial performance, financial position and cash flows. The funding compliance measurement table essentially measures the degree to which the proposed budget complies with the funding requirements of the MFMA. Each of the measures is discussed below.

Table 26 MBRR SA10 – Funding compliance measurement

Description	MFMA section	2008/9	2009/10	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Funding measures										
Cash/cash equivalents at the year end - R'000	18(1)b	51,895,000	40,233,604	48,361,269	27,200,078	40,967,527	40,817,527	12,563,000	(2,746,000)	(17,381,000)
Cash + investments at the yr end less applications - R'000	18(1)b	33,440,658	37,367,353	47,436,659	22,321,000	35,979,527	35,979,527	4,645,038	(13,161,962)	(31,374,000)
Cash year end/monthly employee/supplier payments	18(1)b	11.7	6.3	7.5	3.1	4.8	4.8	1.3	(0.3)	(1.6)
Surplus/(Deficit) excluding depreciation offsets: R'000	18(1)	27,248,560	2,961,916	4,842,444	-3,401,538	-2,715,887	-2,715,867	19,448,076	20,614,483	21,854,730
Service charge rev % change - macro CPIX target exclusive	18(1)a,(2)	N.A.	43.3%	(8.1%)	6.5%	(2.5%)	(6.0%)	8.3%	0.0%	0.0%
Cash receipts % of Ratepayer & Other revenue	18(1)a,(2)	86.6%	73.6%	100.0%	109.6%	100.0%	100.0%	100.0%	100.0%	100.0%
Debt impairment expense as a % of total billable revenue	18(1)a,(2)	5.8%	5.9%	1.1%	5.4%	4.8%	4.8%	4.1%	4.1%	4.1%
Capital payments % of capital expenditure	18(1)c;19	100.0%	101.7%	100.0%	89.3%	58.0%	172.6%	149.7%	0.0%	0.0%
Borrowing receipts % of capital expenditure (excl. transfers)	18(1)c	0.0%	1.3%	(0.5%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Grants % of Govt. legislated/gazetted allocations	18(1)a							0.0%	0.0%	0.0%
Current consumer debtors % change - incr(decr)	18(1)a	N.A.	124.9%	25.5%	(23.0%)	(10.7%)	0.0%	(2.0%)	(18.2%)	(25.6%)
Long term receivables % change - incr(decr)	18(1)a	N.A.	(23.5%)	(44.7%)	104.1%	(14.3%)	0.0%	0.0%	(8.3%)	(9.1%)
R&M % of Property Plant & Equipment	20(1)(vi)	1.0%	3.3%	4.1%	4.5%	5.2%	0.0%	4.5%	3.9%	3.5%
Asset renewal % of capital budget	20(1)(vi)	0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

2.6.1.1 Cash/cash equivalent position

The Municipality's forecast cash position was discussed as part of the budgeted cash flow statement. A 'positive' cash position, for each year of the MTREF would generally be a minimum requirement, subject to the planned application of these funds such as cash-backing of reserves and working capital requirements.

If the municipality's forecast cash position is negative, for any year of the medium term budget, the budget is very unlikely to meet MFMA requirements or be sustainable and could indicate a risk of non-compliance with section 45 of the MFMA which deals with the repayment of short term debt at the end of the financial year. The forecasted cash and cash equivalents for the 2012/13 MTREF shows R12.5 million, (R2.7 million) and (R17.3 million) for each respective financial year.

2.6.1.2 Cash plus investments less application of funds

The purpose of this measure is to understand how the municipality has applied the available cash and investments as identified in the budgeted cash flow statement. The detail reconciliation of the cash backed reserves/surpluses is contained in Table 25, on page 25. The reconciliation is intended to be a relatively simple methodology for understanding the budgeted amount of cash and investments available with any planned or required applications to be made. This has been extensively discussed above.

2.6.1.3 Monthly average payments covered by cash or cash equivalents

The purpose of this measure is to understand the level of financial risk should the municipality Be under stress from a collection and cash in-flow perspective. Regardless of the annual cash position an evaluation should be made of the ability of the Municipality to meet monthly payments as and when they fall due. It is especially important to consider the position should the municipality be faced with an unexpected disaster that threatens revenue collection such as rate boycotts. Notably, the ratio has been falling significantly for the period 2008/09 to 2011/12, moving from 11.7 to 3.1 with the adopted 2011/12 MTREF. As part of the 2012/13 MTREF the municipalities decreasing cash position causes the ratio to move downwards to 1.3, (0.3) and then reduces drastically to (1.6) for the outer years. As indicated above the Municipality should aim to achieve at least one month's cash coverage in the medium term, and then gradually move towards two months coverage. This measure will have to be carefully monitored going forward.

2.6.1.4 Surplus/deficit excluding depreciation offsets

The main purpose of this measure is to understand if the revenue levels are sufficient to conclude that the community is making a sufficient contribution for the municipal resources consumed each year. An 'adjusted' surplus/deficit is achieved by offsetting the amount of depreciation related to externally funded assets. Municipalities need to assess the result of this calculation taking into consideration its own circumstances and levels of backlogs. If the outcome is a deficit, it may indicate that rates and service charges are insufficient to ensure that the community is making a sufficient contribution toward the economic benefits they are consuming over the medium term. For the 2011/12 MTREF the indicative outcome is a surplus of R4.6 million, then a deficit of R13.1 million and R31.3 million in the outer years.

It needs to be noted that a surplus does not necessarily mean that the budget is funded from a cash flow perspective and the first two measures in the table are therefore critical.

2.6.1.5 Property Rates/service charge revenue as a percentage increase less macro inflation target

The purpose of this measure is to understand whether the municipality is contributing appropriately to the achievement of national inflation targets. This measure is based on the increase in 'revenue', which will include both the change in the tariff as well as any assumption about real growth such as new property development, services consumption growth etc.

The factor is calculated by deducting the maximum macro-economic inflation target increase (which is currently 3 - 6 per cent). The result is intended to be an approximation of the real increase in revenue. From the table above it can be seen that the percentage growth totals 9.4, 8.9 and 9.0 per cent for the respective financial year of the 2011/12 MTREF. Considering the lowest percentage tariff increase in relation to revenue generated from rates and services charges is 9 per cent, with the increase in electricity at 19 per cent it is to be expected that the increase in revenue will exceed the inflation target figures. However, the outcome is lower than it might be due to the slowdown in the economy and a reduction in consumption patterns. This trend will have to be carefully monitored and managed with the implementation of the budget.

2.6.1.6 Cash receipts as a percentage of ratepayer and other revenue

This factor is a macro measure of the rate at which funds are 'collected'. This measure is intended to analyse the underlying assumed collection rate for the MTREF to determine the relevance and credibility of the budget assumptions contained in the budget. It can be seen that the outcome is at 95.2, 95.3 and 95.6 per cent for each of the respective financial years. Given that the assumed collection rate was based on a 95 per cent performance target, the cash flow statement has been conservatively determined. In addition the risks associated with objections to the valuation roll need to be clarified and hence the conservative approach, also taking into consideration the cash flow challenges experienced in the current financial year. This measure and performance objective will have to be meticulously managed. Should performance with the mid-year review and adjustments be positive in relation to actual collections of billed revenue, the adjustments budget will be amended accordingly.

2.6.1.7 Debt impairment expense as a percentage of billable revenue

This factor measures whether the provision for debt impairment is being adequately funded and is based on the underlying assumption that the provision for debt impairment (doubtful and bad debts) has to be increased to offset under-collection of billed revenues. The provision has been appropriated at 4.1, 4.0 and 4.0 per cent over the MTREF. Considering the debt incentive scheme and the municipality's revenue management strategy's objective to collect outstanding debtors of 90 days, the provision is well within the accepted leading practice.

2.6.1.8 Capital payments percentage of capital expenditure

The purpose of this measure is to determine whether the timing of payments has been taken into consideration when forecasting the cash position. It can be seen that a 2 per cent timing discount has been factored into the cash position forecasted over the entire financial year. The municipality aims to keep this as low as possible through strict compliance with the legislative requirement that debtors be paid within 30 days.

2.6.1.9 Borrowing as a percentage of capital expenditure (excluding transfers, grants and contributions)

The purpose of this measurement is to determine the proportion of a municipality's 'own-funded' capital expenditure budget that is being funded from borrowed funds to confirm MFMA compliance. Externally funded expenditure (by transfers/grants and contributions) has been be excluded. It can be seen that borrowing equates to 63.6, 49.5 and 58.3 per cent of own funded capital. Further details relating to the borrowing strategy of the City can be found on 66.

2.6.1.10 Transfers/grants revenue as a percentage of Government transfers/grants available

The purpose of this measurement is mainly to ensure that all available transfers from national and provincial government have been budgeted for. A percentage less than 100 per cent could indicate that not all grants as contained in the Division of Revenue Act (DoRA) have been budgeted for. The City has budgeted for all transfers.

2.6.1.11 Consumer debtors change (Current and Non-current)

The purposes of these measures are to ascertain whether budgeted reductions in outstanding debtors are realistic. There are 2 measures shown for this factor; the change in current debtors and the change in long term receivables, both from the Budgeted Financial Position. Both measures show a relatively stable trend in line with the City's policy of settling debtor's accounts within 30 days.

2.6.1.12 Repairs and maintenance expenditure level

This measure must be considered important within the context of the funding measures criteria because a trend that indicates insufficient funds are being committed to asset repair could also indicate that the overall budget is not credible and/or sustainable in the medium to long term because the revenue budget is not being protected.

2.6.1.13 Asset renewal/rehabilitation expenditure level

This measure has a similar objective to aforementioned objective relating to repairs and maintenance. A requirement of the detailed capital budget (since MFMA Circular 28 which was issued in December 2005) is to categorise each capital project as a new asset or a renewal/rehabilitation project. The objective is to summarise and understand the proportion of budgets being provided for new assets and also asset sustainability. A declining or low level of renewal funding may indicate that a budget is not credible and/or sustainable and future revenue is not being protected, similar to the justification for 'repairs and maintenance' budgets.

2.7 Legislation compliance status

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

1. **In year reporting**
   Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Executive Mayor (within 10 working days) has progressively improved and includes monthly published financial performance on the Municipality's website.

2. **Internship programme**
   The Municipality is participating in the Municipal Financial Management Internship programme and has employed five interns undergoing training in various divisions of the Financial Services Department.

3. **Budget and Treasury Office**
   The Budget and Treasury Office has been established in accordance with the MFMA.

4. **Audit Committee**
   An Audit Committee has been established using a shared service and from 1 July 2012 the Municipality will be establishing its own Audit Committee.

5. **Service Delivery and Implementation Plan**
   The detail SDBIP document will be finalised after approval of the 2012/13 MTREF in June 2012 directly aligned and informed by the 2012/13 MTREF.

6. **Annual Report**
   Annual report is compiled in terms of the MFMA and National Treasury requirements.

7. **MFMA Training**
   The MFMA training module in electronic format is presented at the Municipality and training is ongoing.

8. **Policies**
   All policies are currently under review.

2.8 Municipal manager's quality certificate

I …………………………………, municipal manager of Umvoti Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name _Mr. B. A. Xulu____

Municipal manager of Umvoti Municipality (KZN 245)

Signature ____

Date __________________________